Only at YOUR M&S

Annual report and financial statements 2011

About M&S

Marks & Spencer is one of the UK's leading retailers. We sell high quality, great value clothing and home products as well as outstanding quality food. Around 21 million customers visit our stores each week and we have 78,000 employees across the UK and 42 territories globally.

The statutory results for the prior year are for the 53 weeks ended 3 April 2010. In order to be able to compare these with this year's 52 week period, all comparative revenue numbers and growth rates are stated on a 52 week basis on pages 1 to 37 unless specified otherwise. The Financial review on page 34 explains the calculation of the 52 week results in 2009/10. The Group also uses underlying profit measures, which are set out on pages 35 and 36 of the Financial review.

In September 2010 Kantar Worldpanel changed its research methodology and as a result historical market share data was reprocessed and adjusted. The market share data used in this report is based on these updated figures. This data is not comparable to any published before September 2010.

Financial highlights 2011

Measure	Value	Change (53 wks)	Change (52 wks)
Group revenue	£9.7bn	+2.1%	+4.2%
Underlying Group operating profit	£824.9m	-2.3%	+5.9%
Group profit before tax	£780.6m	+11.1%	+21.9%
Underlying Group profit before tax	£714.3m	+2.8%	+12.9%
Underlying earnings per share	34.8p	+5.5%	+16.0%
Interim + final dividend	6.2p+10.8p =17.0p		+13.3%

Focus on the UK

P14

Our UK turnover of £8.7bn has a broadly even split between General Merchandise (Clothing & Home) and Food.

Clothing & Home

£4.2bn sales (+3.9%)

M&S is the UK's largest clothing retailer, with something for everyone. We sell stylish, high quality, great value clothes for all ages and are the UK market leaders in womenswear, lingerie and menswear.

Food

£4.5bn sales (+4.1%)

We are the UK's leading provider of high quality food. Our products range from fresh produce and groceries to innovative part-prepared meals and a range of award winning wines.

Stores

703

We have 703 stores across the UK in high streets and retail parks as well as stations, airports and other locations. Our ongoing store modernisation programme is enhancing the shopping environment and broadening the range of hospitality options.

P16
Read about our Womenswear performance

Multi-channel

P26

Customers shop with us in our stores, online and over the phone. However they shop, we aim to deliver consistently high levels of service throughout every transaction – from purchase to delivery.

M&S Direct

£543m sales (+31%)

M&S Direct is designed around customer convenience and service. It includes the M&S website, Shop Your Way and our new mobile-enabled website.

- E-commerce website and mobile web
- Home catalogue
- Flowers and wine
- Food to order
- lunchtogo
- Shop Your Way

International

P28

We have 361 wholly-owned, partly-owned and franchised stores in 42 territories across Europe, the Middle East and Asia. We are growing our International business presence to reduce our dependency on the UK economic cycle and make the M&S brand accessible to more customers around the world.

- 152 wholly-owned and partly-owned stores
- 209 franchises

Plan A

Plan A is our eco and ethical programme. Our commitments help us to reduce our environmental impact, develop sustainable products and improve the lives of our employees, customers, suppliers and people in our local communities.

Seven pillars
180 commitments

- Involve our customers in Plan A
- Make Plan A how we do business
- Climate change
- Waste
- Natural resources
- Fair partner
- Health & wellbeing

P30

What's in this report?

P04

Read about **our plan for the future** in Chief Executive Marc Bolland's review.

Why go online?

marksandspencer.com/annualreport 2011

If you haven't already tried it, visit our easy-to-use, fully interactive online Annual Report. This year alone over 3,000 shareholders have signed up for electronic communications and are now benefiting from more accessible information and helping the environment too.

- **Reasons to sign up**
- It's a more engaging and interactive experience
- It's printable as individual pages
- It saves paper and costs

Overview

Strategy

Performance & Marketplace

Operating review

Financial review

Governance

Financial statements & other information

Chairman's statement

"Marks & Spencer is a very special company and I feel privileged to be its Chairman at such an exciting time."

Robert Swannell Chairman

Interim dividend
paid on 8 Jan 2011
6.2p

Final dividend
to be paid on 15 Jul 2011
10.8p

Total dividend
2010/11
17.0p

I feel very privileged to be Chairman of this unique company and at such an exciting time in our evolution.

Since joining Marks & Spencer in October and assuming the role of Chairman in January, I have spent much of my time getting to know the business better – meeting our employees, shareholders, customers and suppliers.

I first became deeply involved with M&S during the unsolicited takeover attempt in 2004, when I led the advisory team that helped put the M&S case to its shareholders. It was then I learned first hand about this unique company: about the extraordinarily strong relationship it has with its many stakeholders and about its very special ethos.

This ethos is a reflection of the high standards our customers expect from M&S – trusting us not only to deliver great value, great quality products but also to do the right thing – socially, environmentally and ethically. We know that putting Plan A at the heart of how we do business is not just the right thing to do; it is also fundamental to our long-term success.

Performance

In a challenging marketplace M&S has continued to grow, with underlying profits up 12.9% on the year. We delivered this by staying true to our heritage of quality and innovation, reminding our customers what makes M&S special.

This year, Marc Bolland set out a clear medium-term plan for the business, after extensive discussions with colleagues and us, the Board. This is covered in detail in Marc's review on page 4.

From day one, I have been struck by the passion and commitment of our people. I am delighted that this year we are paying a bonus to all employees to thank them for their energy and enthusiasm in what has been a difficult trading environment.

Dividend

We are committed to delivering consistent returns for our shareholders. To this end we have adopted a progressive dividend policy, with dividends broadly covered twice by earnings. We intend to pay a final dividend of 10.8p per share (last year 9.5p) in respect of the 2010/11 financial year.

Governance

This year we returned to the traditional governance structure of a separate Chairman and Chief Executive, providing clarity between Marc Bolland and me, with regard to our respective roles. Put simply, I run the Board and Marc runs the business.

The Board has a wide range of responsibilities. There are three that I think are particularly important for the success of the business: first, to debate and agree our strategy and hold the executive team accountable for its execution; second, to ensure that we have the most talented team to execute this strategy and that we plan effectively for succession; and third, to set the tone for governance, which is particularly important at M&S where 'doing the right thing' is an integral part of our ethos.

My job is to ensure the Board has the right mix of skills and talents and to ensure that it works effectively as a team towards shared goals with the right mix of enquiry and support of the executive directors from the non-executive directors.

How we're governed

Group Board

The Board monitors what management are doing, holding them accountable for performance against our targets and standards and challenging their thinking to make sure we are on the right track.

Nomination & Governance Committee

Chair Robert Swannell

Responsibilities
Recommends Board appointments, reviews business succession plans and makes sure our governance is fit for purpose.

For more info see **p50**

Audit Committee

Chair Jeremy Darroch

Responsibilities
Monitors the integrity of financial statements and reviews effectiveness of internal controls, risk management and audit.

For more info see **p51**

Remuneration Committee

Chair Steven Holliday

Responsibilities
Recommends remuneration strategy and framework to recruit, retain and reward senior executives for their individual performance.

For more info see **p52**

Operational Governance

- Executive Board
- Management Committee
- Property Board
- Customer Insight Unit
- How We Do Business Committee
- Business Involvement Group
- Fire, Health and Safety Committee
- Business Continuity Committee

For more info see **p40**

During the year we commissioned a formal Board evaluation from an independent consultant, the findings of which are outlined in the Governance section on page 44. This process highlighted the real enthusiasm of the directors in supporting a shared ambition: to guide M&S to the very best future. We know that you expect high standards from M&S; it's our responsibility to learn how we can improve. This review was an important part of that journey.

As stated in our 2009/10 Annual Report, we reviewed the senior remuneration structure this year. Following extensive shareholder consultation, we believe we now have a framework that is both relevant to today's M&S and fully aligned with our strategy.

The Board

Over the last year the Board has been strengthened by a series of executive appointments. In May 2010 Marc Bolland joined the business as Chief Executive, assuming the day-to-day running of the business from Sir Stuart Rose in July. In October Alan Stewart joined as Chief Finance Officer and in February we announced the appointment of Laura Wade-Gery as Executive Director, Multi-channel E-commerce; she will join the Board in July. Whilst the Board features some new faces, these changes have taken place around a core of executive and non-executive directors that has remained stable over recent years.

I would like to pay particular tribute to Sir Stuart Rose. When he became Chief Executive in 2004, M&S was at a low ebb. He restored confidence in M&S, re-established its values and built a strong business. The solid platform from which Marc is now implementing his plan is a credit to Stuart's energy and tireless commitment to M&S over the last seven years.

The smooth management transition – the meticulous handover to me and the support of Marc – is also a credit to Stuart. In that connection, I would also like to thank Sir David Michels, and the Nominations & Governance Committee he led, for managing a change of leadership over the past year that was accomplished quietly and effectively. David has decided to step down from the Board at the end of his second term in February 2012, but I am delighted that he will continue his role as Deputy Chairman until then.

I must also thank Louise Patten for the significant contribution she has made over the last five years, playing an important role in each of our Board Committees. As Louise reaches the end of her second three year term on the Board, she has decided not to seek re-election at the upcoming AGM.

Looking ahead

Our priorities for the year ahead are clear. We have a plan and it is now our collective job to make it happen. The Board will concentrate on delivering exemplary governance at the highest level to enable our executive team to drive this strategy forward.

The economy still gives us reason to be cautious. Yet in difficult times, our core values of Quality, Value, Service, Innovation and Trust matter more than ever to M&S customers. These values remain at the heart of our strategy and I therefore look forward to the future with confidence.

Robert Swannell
Chairman

Building on success

“Our aim is to give customers more choice every time they shop with us.”

Marc Bolland Chief Executive Officer

In 2010/11 we delivered a good performance with sales up 4.2%. In challenging trading conditions we grew our market share in both Clothing and Food. We did this by continuing to offer great quality and value – as well as innovative new products – every time customers shopped with us.

Since joining Marks & Spencer I have immersed myself in the business. I've visited our stores to meet our customers and our employees. I have seen first hand the strength of our relationships with our suppliers and the lengths we go to together to make M&S truly special; from responsibly sourcing the finest quality ingredients to pioneering new technologies to meet our customers' changing needs.

Our business is in good shape and we have strong foundations on which to build. In November I set out our plan to grow M&S through evolution not revolution.

We have started by focusing on our UK business – enhancing the enviable strength of our brand, improving our core offer of Clothing, Home and Food and making our stores easier to shop. Over the first three years we are also developing what I call our building blocks for our future. We are:

Increasing our UK space growth, with the aim of reducing drive times for our customers.

Building our multi-channel capabilities to create best in class operations that support our growth ambitions.

Becoming a more international company with a more global outlook and international capabilities.

Our aim is to make M&S a truly international, multi-channel retailer – accessible to even more customers around the world. Six months in and we are already building momentum in the delivery of our plan.

Our Plan 2013-2015

By 2015

- Drive UK like-for-like growth
- International multi-channel retailer
- Drive international presence

2010-2013

- UK space and like-for-like growth
- A leading UK multi-channel retailer
- International company

Focus on UK
- Brand
- Clothing
- Home
- Food
- Stores

Investment in our UK business by 2013/14

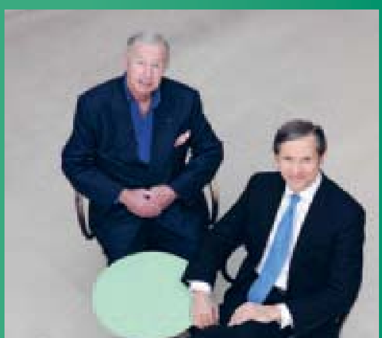
£600m

Focus on UK revenue growth by 2013/14

£1-1.5bn

↗
Trading up to quality Our 'Good', 'Better' and 'Best' philosophy offers a breadth of price points. As customers managed their budgets carefully this year they invested in quality. Last year the strongest performers in ladies footwear were our 'Good' ranges, but this year our 'Best' ranges were the most popular, with sales up 126%.

Conran Exclusive Design only at M&S This partnership will form the basis of our 'Contemporary' home offer, providing customers with the quality and value they expect from M&S, coupled with the unique Conran design signature.



Focus on UK **Our immediate priority is the enhancement of our capabilities in the UK. We will achieve this through developing the M&S brand, improving our stores and focusing on our Clothing, Home and Food businesses.**

Brand

Together with our people, the M&S brand is one of our strongest assets – reflected by the extraordinary trust our customers place in it. But what makes M&S truly special is being special. If you look back into our history we have been successful by doing things differently and not by copying others.

We have always invested in innovation but we have not always shouted about it. So in November we launched our new brand positioning – 'Only at Your M&S' – to shine a light on the 'hidden treasures' across our ranges. First used in our January advertising, 'Only at Your M&S' has made us raise the bar for innovation, creating a new benchmark – constantly asking ourselves 'Is this good enough?'

'Only at Your M&S' is now the key message of our marketing campaigns. Further details of our brand strategy are set out by Steve Sharp on page 14.

Clothing

M&S is the UK's leading clothing retailer and this year we extended our lead, growing market share across all areas. Sales increased by 4.2%. This performance was driven by offering more choice, excellent quality and appropriate adaptations of the year's key styles – all at great M&S value. We delivered exceptional performances in Lingerie and Menswear as detailed by Kate Bostock on page 16.

We are building on this market leading position by strengthening our style credentials and making our clothing ranges easier to shop. Our customers have told us they find the positioning of M&S clothing and our sub-brands unclear. We know the high levels of quality and unique innovations that exist in our core range are not always noticed by our customers. So we are relaunching our core M&S clothing, making it a brand in its own right and promoting the range's style, innovations and Plan A credentials.

We are also developing our sub-brands to give them their own distinct identities. With the support of dedicated brand managers, we are turning them from 'labels' to real brands that will translate internationally.

Home

In our Home business, sales were up 1.6% despite difficult trading conditions. As customers improved and updated their homes rather than move, we saw good sales in accessories and soft furnishings.

With only 20% of our customers shopping in Home, we have a real opportunity to grow this business further. Our plan is to offer greater choice and make our core Home offer more accessible in larger stores and online. We are also making it easier to shop – dividing our offer into Classic, Contemporary and Design categories so that customers can easily identify which lifestyle best fits them. Our withdrawal from Technology is enabling us to focus on growth departments such as kitchenware and bedding. We are already building momentum through our exciting new design collaboration with Sir Terence Conran.

Building on success

continued

↓
Sustainable learning store Built on a former brownfield site, our new eco-learning store in at Ecclesall Road, Sheffield incorporates a host of innovative features. Harvested rainwater reduces water costs by 40% and expelled warmth from refrigeration units heats the store, reducing carbon output by 20%. A sedum roof and green 'living wall' also create wildlife habitats.

↓
Award winning wines M&S was awarded Wine Supermarket of the Year at the International Wine Challenge 2010 for the third year in a row: something no other retailer has achieved. Our in-store wine adviser programme, Wine Direct website and tasting events all came in for high praise. Our environmental initiatives such as the conversion of our small glass bottles to plastic were also acknowledged, not to mention our fantastic range of uniquely blended award-winning wines.

Food

Our Food business continues to grow, with sales up 4.1% this year. Trusting in our quality, customers continued to turn to us for innovative products, recognising the great value M&S offers. Despite little space growth we have gained market share this year. Details of our performance are outlined by John Dixon on page 20.

We are growing our Food business by focusing on our core strengths of freshness, speciality and convenience. Building on our heritage of quality and innovation we are differentiating ourselves from the supermarkets, better showcasing our latest products to customers through 'Dine In' promotions.

In line with 'Only at Your M&S' we are reducing the number of non-M&S branded lines from 400 to around 100. Better space planning in our Food Halls is enabling us to give customers more choice – increasing our range to include more new M&S product lines, as well as 100 distinctive international brands that will be exclusive to M&S in the UK.

We continue to provide great value on our core lines, improving the quality without increasing the prices.

UK stores

This year we began work to make our stores easier to shop. We have started by better segmenting our stores according to local demographics. This helps us ensure we are offering the optimal product mix for each and every customer profile and allocating the right space in store to individual ranges and products.

We are also improving the way customers can find things in our stores, with a new, clearer signage scheme. Customers will start to see the changes from September 2011. This will be supported by a new consistent packaging architecture across Clothing, Home and Food. Our aim is to create a better and more inspiring shopping environment, which encourages our customers to shop across our different departments.

UK space growth Though we have 703 stores in locations across the UK, in recent years we have lagged behind the retail market in terms of space growth.

Our aim is for 95% of the UK population to be within a 30 minute drive of a full-line M&S store by 2015. To achieve this we have committed to delivering space growth of 3% per annum until 2015/16.

As part of this space growth programme, we will also increase the number of Simply Food stores, tailoring them to meet the needs of their local customers.

Growing our presence across the UK will help us maximise the opportunity presented by our Shop Your Way service, creating even more convenient customer collection points.

Total investment in our multi-channel capabilities by 2013/14

£150m

Multi-channel revenue growth by 2013/14

£300m-£500m

Multi-channel M&S has built a strong Multi-channel business. Sales in our M&S Direct business have increased by 31% to £543m and Shop Your Way has grown in popularity, with customers now able to place orders via the mobile web, as well as in stores, online or by phone for delivery to their choice of address or local store.

Our partnership with Amazon has worked well but given the scale of our multi-channel ambitions, we will end our agreement with Amazon when it expires in 2013/14. We are now creating our own international website platform, capable of selling in multiple countries in local currency. Our first fully transactional international site will launch to the French market at the end of 2011.

Through our space growth programme, we are creating a store portfolio that will enable us to deliver a leading multi-channel shopping experience throughout the UK. We are extending Shop Your Way further and continue to lead the way in developing new channels such as mobile technology, touch screens and product personalisation on the web.

The appointment of Laura Wade-Gery, as Executive Director Multi-channel E-commerce, reflects the importance of multi-channel in our overall growth strategy for M&S.

← M&S Home Our Home sourcebook provided inspiration to over 1.6 million customers. The most recent edition featured photography of beautifully-styled roomsets to showcase our products in a lifestyle context.

← Shop Your Way This year we celebrated the first anniversary of the full Shop Your Way roll-out. This service is now available in 444 stores across the UK.

Total investment in our international capabilities

£150m

International revenue growth by 2013/14

£300m-£500m

International Despite operating in some challenging markets, our International business delivered a strong performance with sales up 6.1%. The details of our 2010/11 performance are set out on page 28.

Though we have 361 stores in 42 territories, M&S has essentially been a UK retailer that exports. Over the next three years, we will become a truly international company – building an organisational structure with a more global outlook and international capabilities.

We now have a clear strategy for market entry. We will avoid ‘flag planting’ and will instead adopt the appropriate ownership models for each market, aiming to build a leadership position wherever we operate. We are focusing on a number of priority markets in Europe, the Middle East, India and Shanghai. This is the logical route and will enable us to take full advantage of existing M&S brand awareness and distribution infrastructure.

← Priority markets The Shanghai region in China is a priority market for M&S and we are focused on building our presence here with four stores and plans for another two confirmed. Our newest store – in Century Oriental Plaza, Ningbo – opened in January 2011.

Building on success

continued

One Day Wardrobe Clear-out The events held in September and March attracted around 300,000 extra customers into our stores, donating more than 750,000 items of clothing to Oxfam.

Supply chain Our new distribution centre in Bradford opened in July. The largest warehouse in our network, and one of the biggest in the UK, it supplies all our stores with furniture, store equipment and ambient food. When fully operational it will employ 1,200 people.

Investing in our plan To deliver our plan we will make an additional capital investment of £850m to £900m over the next three years.

This investment will strengthen our UK business and help build both our multi-channel and international capabilities. It will be funded by our existing cash flows and we are confident it will deliver benefits for the business and our shareholders.

We are building an efficient business – accelerating our programme to restructure the M&S supply chain and driving out inefficiencies. Further details of our investment and expected returns are explained by Alan Stewart in the Financial review on page 34.

Plan A M&S is a leader in the field of sustainability and Plan A – our eco and ethical plan – continues to set us apart.

It makes us a more efficient business too, and in 2010/11 Plan A generated a net benefit of over £70m.

Our aim is to become the world's most sustainable major retailer by 2015. This year we have continued to drive Plan A throughout the business and make it more relevant to our customers with new initiatives, such as our 'One Day Wardrobe Clear-out', which has raised over £2.2m for Oxfam.

Our Management Committee

Marc Bolland
Chief Executive Officer

Steven Sharp
Executive Director, Marketing

John Dixon
Executive Director, Food

Alan Stewart
Chief Finance Officer

Kate Bostock
Executive Director, General Merchandise

Amanda Mellor
Group Secretary and Head of Corporate Governance

Laura Wade-Gery will be joining the business on 4 July 2011 as Executive Director, Multi-channel E-commerce.

Do Your Thing In April we launched our first ever standalone kids' multi-media ad campaign in partnership with ITV and iconic fashion photographer Rankin. The nationwide competition aims to find four talented young people to be the faces of our next autumn/winter kidswear campaign.

The M&S team It's not just the products that make M&S special, it's the people.

I'm a great believer in teamwork and we have an excellent team in place at M&S. Our job now is to work together and put our plan into action.

I would like to take this opportunity to thank all of my colleagues for their hard work this year. The more of our employees I meet, the more impressed I am with their enthusiasm and commitment to the business.

Looking ahead In 2011/12 we expect trading conditions to be challenging due to rising pressure on consumers' disposable incomes and higher commodity prices. As a result, we are cautious about the outlook.

While the short-term economic outlook remains challenging, we are confident in the long-term growth prospects of the business. In a climate of economic uncertainty, our priority remains to deliver exceptional value and unrivalled quality.

We will continue to focus on delivering against our plan, ensuring that – as we grow – we continue to meet and exceed our customers' expectations, investing in the innovation that sets M&S apart.

Marc Bolland Chief Executive Officer

Clem Constantine
Director of Property

Tanith Dodge
Director of Human Resources

Dominic Fry
Director of Communications and Investor Relations

Jan Heere
Director of International

Nayna McIntosh
Director of Store Marketing and Design

Steve Rowe
Director of Retail

Andrew Skinner
GM Merchandising Director

Darrell Stein
Director of IT and Logistics

Our performance

Financial performance

Group revenue

£9.7bn

+2.1% (53 wks)
+4.2% (52 wks)

£m	07/08	08/09	09/10	10/11
UK	8,309.1	8,164.3	8,567.9	8,733.0
International	712.9	897.8	968.7	1,007.3
Total	9,022.0	9,062.1	9,536.6	9,740.3

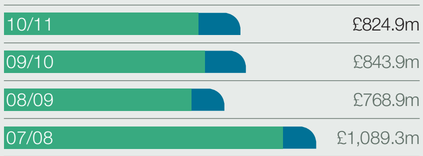
In November 2010 we set out plans to invest an additional £850m to £900m over the next three years to enhance our UK business and develop our multi-channel and international capabilities. As a result, we have set a target to grow Group revenue to between £11.5bn and £12.5bn by 2013/14.

Underlying Group operating profit

£824.9m

-2.3% (53 wks)
+5.9% (52 wks)

£m	07/08	08/09	09/10	10/11
UK	972.9	652.8	701.2	677.9
International	116.4	116.1	142.7	147.0
Total	1,089.3	768.9	843.9	824.9



Performance against our plan

Focusing on the UK

P16

UK market share clothing and footwear

Value
11.7%
+0.5%pts

Volume
12.3%
+0.3%pts

Analysis This year we grew market share across all areas of our clothing business, as we offered customers greater choice at the same unrivalled quality and value. More information on our clothing performance is set out on page 16.

Source: Kantar Worldpanel Clothing and footwear share 52 w/e 17 April 2011

UK market share food

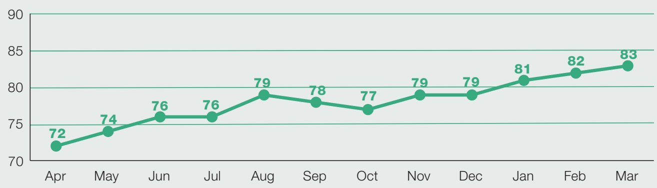
3.9%
+0.1%pts

Analysis Our food market share increased this year as customers did more of their shopping with M&S, recognising the great value and quality we offer. Our performance in this area is detailed on page 20.

Source: Kantar Worldpanel Food and Drink share 52 w/e 17 April 2011

UK mystery shopping programme

Average score is
78%



Analysis In April 2010 we rebased our mystery shopping scores to help us target even higher standards of customer service. This year we conducted around 6,800 visits to stores and have seen a steady improvement in performance over the course of the year, with average scores increasing by 11%.

Average weekly footfall

20.7m
-0.3%

Analysis Customer visits to our stores were broadly stable in 2010/11. Concerns about rising petrol prices meant footfall slowed slightly in the second half of the year. However, we remained ahead of the overall market figure of -1.4%.

Drive UK space growth

Annual space growth

1.4%

Analysis This year we have set out a commitment to deliver c.3% UK space growth per annum until 2015/16. This programme will help us create a store portfolio that delivers a leading multi-channel shopping experience.

Underlying Group profit before tax

£714.3m

+2.8% (53 wks)
+12.9% (52 wks)

09/10 £694.6m
08/09 £604.4m
07/08 £1,007.1m

The statutory results for the prior year are for the 53 weeks ended 3 April 2010. In order to be able to compare these with this year's 52 week period, where appropriate, the 52 week comparative results have been stated. The Financial review on page 35 explains the calculation of the 52 week results in 2009/10. The underlying profit measures are consistent with how the underlying business is measured internally. For more details see page 36 of the Financial review.

Group profit before tax

£780.6m

+11.1% (53 wks)
+21.9% (52 wks)

09/10 £702.7m
08/09 £706.2m
07/08 £1,129.1m

Underlying earnings per share

34.8p

+5.5% (53 wks)
+16.0% (52 wks)

09/10 33.0p
08/09 28.0p
07/08 43.6p

Becoming a leading multi-channel retailer P26

M&S Direct sales*

£543m

+31%

09/10 £413m
08/09 £324m
07/08 £220m

Analysis Our Multi-channel business continues to grow as we introduce new and more convenient ways to shop with M&S. This year we announced plans to invest £150m in our multi-channel capabilities and have targeted sales growth of £300m to £500m by 2013/14.

* 52 week comparative

Percentage of population within a 30 minute drive of a full line store

93%

Analysis Under our space growth programme, our aim is for 95% of the population to be within a 30 minute drive of a full line store by 2015. This will help to ensure we can deliver a leading multi-channel shopping experience throughout the UK.

Building an international company P28

International sales*

£1,007.3m

+6.1%

09/10 £949.4m
08/09 £897.8m
07/08 £712.9m

Analysis Over the next three years we will invest £150m to strengthen our international capabilities and make M&S a truly international company. In line with these plans we have set a target to increase International sales by £300 to £500m by 2013/14.

* 52 week comparative

Making Plan A how we do business P30

Improve carbon efficiency
in tonnes CO_2e per 1,000 sq ft of salesfloor

2006/07	2010/11	Improvement	2012 target
51	38	25%	0

Store, office, warehouse, business travel and logistics carbon dioxide emissions in tonnes CO_2e per 1,000 sq ft of salesfloor. Residual emissions will be offset by 2012.

Why carbon efficiency? Improving carbon efficiency reduces greenhouse emissions and costs.

Improve store energy efficiency
in kWh per sq ft of salesfloor

2006/07	2010/11	Improvement	2012 target
67.9	52	23%	51

Store energy usage in kWh/sq ft of salesfloor

Why energy efficiency? Improving energy efficiency reduces costs and helps to meet the requirements of new legislation effective from 2011.

Send no operational waste to landfill
in tonnes

2008/09	2010/11	Improvement	2012 target
69,000	5,000	93%	0

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.

Our marketplace

Building the basics Good quality wardrobe staples performed well this year as customers invested in products that last.

Only at YOUR M&S

Killer heels that don't kill
Our Insolia® footwear technology helps you to dance the night away by reducing the pressure on your feet. Our latest advertising campaign highlighted this M&S point of difference and sales of Insolia® increased 186%.

To give customers more of what they want we must understand the way they think and how they behave. Our Customer Insight Unit (CIU) uses a combination of customer analytics and research feedback to spot trends and examine the issues that affect our customers and the decisions they make.

In June 2010 we established our Consumer Barometer. Our CIU now conducts a monthly online survey of a changing sample of 4,000 people, comprising non-M&S customers as well as those who shop with us. We ask them a range of questions: from how they feel about their lives to spending patterns and future plans. We complement these findings with additional qualitative research from a smaller group, which provides us with more detailed insights.

This information helps ensure customers are at the heart of all our business decisions and this section shares some of what our CIU has told us this year.

Market overview

2010/11 was another challenging year for retailers and consumer confidence remained fragile. Following a sharp slowdown and then recovery during 2009, confidence levels have fluctuated over the last 12 months, as illustrated in the index opposite.

This fragility was driven by a prevailing sense of uncertainty. As we moved towards 2011, consumers became increasingly cautious about the economic outlook as they considered the potential implications of the new Government's spending cuts, VAT increases and rising fuel prices.

Our Consumer Barometer shows optimism is more buoyant, with consumers showing a determination to stay positive in the face of adversity.

Though the Government's austerity measures were widely anticipated and, in the main viewed as necessary, consumers reacted differently according to age. Mid age groups felt their budgets have been most squeezed, with families feeling there was little room left for manoeuvre.

Pressure on household budgets meant consumers remained selective in their spending – determined to take control and prioritise the things that matter to them most. In this climate consumers turned to the brands they trust – seeking the reassurance that they are making sound, quality purchases.

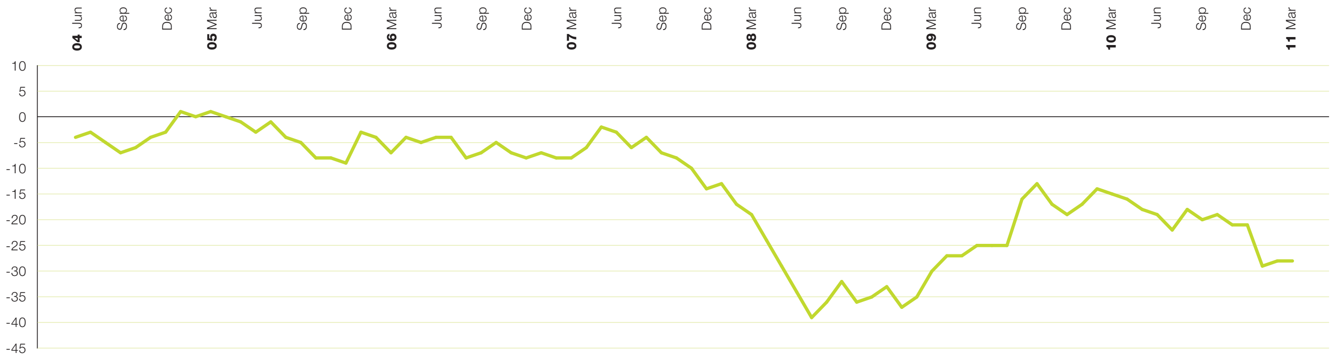
Clothing

This year the overall clothing market remained broadly stable. There was growth in the mid-market, but the top end and value sectors suffered, as customers sought out affordable quality, demonstrating they were prepared to trade up. They adopted a 'buy once, buy well' attitude – preferring to invest in quality pieces they know will last.

At the same time, restricted budgets meant consumers wanted retailers to inspire them to spend on their wardrobe. They searched for something new and exciting to update their look and make them feel special. Customers were prepared to build their wardrobe with great quality staples, like knitwear and denims. However, they wanted clothing with a point of difference; complementary to their existing wardrobe but not multiple versions of what they already owned.

Responding to this, we delivered unique innovations and the latest styles. High impact advertising campaigns and strong visual merchandising helped attract customers, adding interest and excitement and confirming in their minds that M&S offered great quality, exclusive products.

Consumer confidence index (GfK)



↑
Treat yourself This Valentine's Day over 500,000 couples enjoyed a romantic night in with our gourmet 'Dine In' menu.

↓
Move not improve Customers turned to M&S for on trend accessories to brighten their homes.

Home

The housing market remained slow for the third consecutive year. Consumers chose to spruce up their homes rather than move, updating looks using elements such as cushions, bedding, towels and smaller accessories. Big ticket furniture items were less sought after. We responded with more innovation, more colour and more contemporary influences, adding less expensive items to our ranges for quick and easy updates.

Food

The food market has been slow this year, with the majority of growth coming through price inflation. Supermarkets engaged in heavy discounting to draw customers from each other. However, though price remained a consideration, consumers were not enticed by the concept of cheap food. Instead they wanted to feel as though they were 'getting a good deal' on quality food.

After more than two years of austerity consumers wanted to treat themselves, especially on important occasions like Christmas and Valentine's Day. Food was seen as an 'affordable treat', with more indulgent products such as steaks and desserts proving popular.

At M&S we continued to differentiate ourselves from the supermarkets by constantly offering innovation through introducing numerous new and updated lines. We also used bigger promotions, such as our 'Roast Dinner for £5', to help our customers get more of the food they love at great value.

Multi-channel

The market expanded rapidly this year, with new transactional websites appearing through media such as Facebook and new players entering the online market. Customers no longer regard e-commerce as 'new' technology; consequently their expectations are high and they expect to be able to access brands at any time of day from any location. Shoppers are looking for an enhanced buying experience, not just a solution to a problem.

This year we used our website to engage new customers, showcase more product and run unique promotions. The introduction of our mobile web and the increased flexibility of Shop Your Way made our products even more accessible to customers.

Future trends

Throughout the year customers told us that if they are going to spend they want their money to be well spent – on brands that they trust. We expect this to continue, with customers seeking out meaningful purchases that make a difference to their lives.

In an uncertain environment, shoppers are looking for confident retailers who will deliver choice, quality, value and something extra special. Our 'Only at Your M&S' messaging will reinforce our authority, showcase our innovations and differentiate us further from the competition.

Our brand

“The M&S brand is one of our strongest assets; our campaigns ensure it remains both relevant and inspiring.”

Steven Sharp Executive Director, Marketing

↑
M&S Money: Customers continue to turn to trusted brands such as M&S for their financial services. With more than two million active cardholders, M&S Money helps foster customer loyalty by offering benefits such as money-off vouchers. The basket size at this year's special Christmas cardholder event was 70% higher than our average.

↓
Don't put a foot wrong this Christmas This year's dance-themed advertisement starring comedian Peter Kay alongside our M&S model line-up achieved excellent customer recognition. It appealed to both regular and occasional shoppers who depend on M&S for the most important occasions. M&S also scooped the top spot in Channel 5's 'Greatest Christmas TV Advertising Ever', which aired on Christmas Day.

Our marketing activity ensures the M&S brand remains visible and front of mind with our customers. Throughout the year we tailored our campaigns to reflect changing customer needs, ensuring our messages were relevant and provided compelling reasons to visit our stores. This year we have highlighted our innovation, with the launch of 'Only at Your M&S' reminding our customers of the extraordinary lengths we go to, to deliver unique products.

Our campaigns

As customers remained cautious about their spending, we worked hard to give them a reason to keep shopping with us. Through our clothing advertising we highlighted the seasons' key trends, colours and cuts in an upbeat, fresh and inspiring way. Our line-up of Twiggy, Dannii Minogue, Ana Beatriz Barros, VV Brown and Lisa Snowdon showed the broad appeal of M&S clothing, demonstrating how our styles can work for every age group. An additional 1.8 million customers were attracted into store by the fashions showcased in our autumn campaign and the featured lines were among our best selling items.

Last year we took M&S Food back into the heart of family life, with a campaign fronted by actress Caroline Quentin. Customers responded well to the warm and inclusive tone of the advertising and the focus on great value honest food.

Our spring campaign launched with a renewed focus on the product itself – showing the lengths we go to, to produce our delicious food so customers don't have to. As a result, sales of our featured Bistro range increased by 195%.

Only at Your M&S

Throughout its 127 year history M&S has taken pride in designing, developing and delivering its own unique clothing, home and food products. In November 2010 we set out to encapsulate this exclusivity through 'Only at Your M&S'. The message reflects the efforts put into creating innovative, quality 'M&S only' products. Coupled with our increased rate of innovation, we believe 'Only at Your M&S' will help differentiate us even more clearly from the competition.

The new brand message was first featured in our January campaign for our unique Simply Fuller Longer range and was introduced to clothing as part of our spring campaign. This included our first ever innovation-led ads, highlighting the unique technology built into M&S clothing such as our water repellent Stormwear™ finish. Customers reacted positively and recognition of our spring 2011 TV campaign increased on the previous year.

New channels

We increased our investment in online advertising this year. Using the momentum of the major offline activity we created more integrated campaigns, giving us a stronger presence across all media, from mainstream TV through to social media.

New channels have enabled us to engage more effectively with customers and offer more targeted promotions. This year we increased the number of people on our SMS database by 90% and are now sending out over four million emails a week to customers.

Looking ahead

The M&S brand is one of our strongest assets and we will continue to invest in creating relevant and engaging campaigns. We will promote 'Only at Your M&S' across TV, press and online formats, extending it to include innovations in Home and Kidswear. In line with the plans set out in November, we will develop the identities of our sub-brands – and will for the first time launch brand advertising.

We will continue to explore new communication channels and take a more consistent approach to international marketing activity, supporting our plans to make M&S an international, multi-channel retailer.

Our campaigns highlight how we adapt the season's latest trends for all our customers.

Star style Our products play a starring role in our advertising, so we ensure the featured lines are clearly signposted in store and online. Our 'As seen on TV' products are always our fastest selling lines.

as seen ON TV

Clothing and Home

"Customers turn to M&S for lasting quality, excellent value and great style."

Kate Bostock Executive Director, General Merchandise

M&S remains the nation's favourite clothing retailer, with our Clothing and Home business delivering a good performance in 2010/11. Market share by value increased to 11.7% and we experienced growth across all areas as customers sought out M&S quality. A focus on innovation helped drive particularly strong performances in both Lingerie and Menswear. Heritage departments such as knitwear and sleepwear gained market share, as customers continued to rely on us for the wardrobe staples that make M&S famous.

Overview

Over the last 12 months more customers turned to M&S, recognising that our attention to innovation and lasting quality gives them real value for money.

Caution about personal spending prevailed and customers looked to retailers to provide them with inspiration and a real reason to buy. In response we offered customers more choice than ever before with new styles, fabrics and colours; providing something to suit every taste and budget. Our customers loved our different interpretations of the seasons' key styles, while continuing to shop with us for their quality wardrobe essentials.

Like all retailers, the rising costs of raw materials – cotton in particular – proved challenging during the year. However, we have maintained opening price points wherever possible and remain committed to delivering excellent value across our 'good', 'better' and 'best' pricing structure.

Womenswear

Value market share
10.8%
+0.1% pts

Volume market share
9.5%
+0.4% pts

During 2010/11 we grew our market share by value to 10.8%, as we gave our customers better fashions, greater choice and excellent value. Throughout the year we were well positioned to address customers' 'buy once, buy well' mindset; demonstrated by stronger sales of 'better' items such as cashmere knitwear up 11% and *Autograph* boots, where sales trebled.

We kept our ranges fashionable and fresh. Our design team's interpretations of catwalk trends such as lace and 'Mad Men' style 1940s chic meant that there was something for all our customers, whatever their age or shape. Dresses in particular performed strongly, as we provided a broader range of designs.

We saw consistently strong sales in women's footwear, up 16% with market share improving. We extended our innovative Footglove™ comfort solution into contemporary footwear and encouraged more customers to shop by offering more choice in terms of styles and pricing.

Our brands

Our fashion sub-brands help us cater for our customers' diverse tastes, enabling us to attract new younger shoppers, whilst retaining the trust and loyalty of our traditional core customers.

Contemporary and sophisticated, our *Autograph* range showcased the grown-up colour palettes that dominated the autumn/winter catwalk, providing customers with a modern stylish look for work, weekends or occasions. The collection featured luxurious fabrics and a high level of detailing and our *Autograph Exclusive* leather skirt was a real hit with the fashion press.

Our *Classic* collection, which is focused on flattering, comfortable clothes for our more mature customer, delivered consistently strong sales last year.

Launched in 2009, our *Indigo Collection* of easy-to-wear stylish casuals again grew in popularity, attracting customers across a broad age range and strengthening our market position in casualwear.

Our *Limited Collection* 'fast fashion' range reflects the season's key catwalk trends. By regularly updating the collection, we continue to offer customers something new and exciting each time they shop with us.

Per Una remains our best performing brand, with a bold and colourful signature look. The *per una Speziale* collection, which is inspired by Italy, performed particularly strongly and we are capitalising on this success with an extended range.

This year we conducted a review of our sub-brands ahead of our November business update. As part of this, we announced plans to amalgamate *Portfolio* into the core M&S range to help reduce duplication and further strengthen the M&S clothing brand. We are now working to give our sub-brands clearer identities, moving them from 'labels' to establishing them as stand-out brands in their own right.

Only at YOUR M&S

Fashion with a conscience
This year we launched *Indigo Green:* our capsule range of casualwear for women and girls. Both collections feature garments made from organic, recycled or Fairtrade cotton as well as sustainably sourced Modal or Tencel denim.

Lingerie and Beauty

Value lingerie market share
27.1%
+0.8% pts

Volume lingerie market share
21.6%
+0.4% pts

More than one in five British women choose M&S for their lingerie. 2010/11 was another excellent year, with value market share up 0.8% to 27.1% and volume market share increasing to 21.6%.

The last 12 months saw a renewed focus on innovation, with an emphasis on new fabrics such as washable silk and cotton Modals, new designs and technologies. In July we launched the first ever bra that boosts the appearance of the wearer's cleavage by two cup sizes. Based on its success we extended the technology to a body format in March.

Our innovation was in tune with fashion trends and our new Nearly Naked range, designed to 'disappear' under clothing, offered the ideal solution for women to wear under summer whites and neutrals.

Our great value staples continued to drive footfall across our stores and we experienced record sales in both hosiery and sleepwear. We broadened our range of thermal 'warmwear', incorporating new heat generating technology into more versatile layering styles, with sales up 45% this winter.

Reflecting current design trends, our lingerie collections featured glamorous influences from both contemporary and vintage directions. We also catered for the growing 'loungerie' trend – offering new easy to wear items such as all-in-ones and 'cardigowns' in luxurious super soft fabrics.

In November we announced plans to integrate our Beauty department into Lingerie. This will help us maximise the natural synergies and cross-selling opportunities that exist between these areas. This move gives us significant opportunities to develop the growth areas in Beauty such as personal care and fragrance.

↑
Dress to impress As customers looked for new and exciting ways to update their wardrobe we offered them more choice than ever on dresses, such as our stylish *per una* dress above.

→
1940s chic Our on-trend floral bra helped give women the much desired 1940s style silhouette.

↓
Nearly Naked We scanned the skin colour of over 1,000 customers and staff to help us create the four shades for our Nearly Naked range. With a soft, seamless finish helping to create the perfect silhouette, the garments are almost invisible under clothing.

Clothing and Home

continued

↑
Chunky knits Fair Isle was a key fashion trend this winter and we interpreted the look across our knitwear and accessories. During the Christmas season we sold over 120,000 Fair Isle knits and accessories.

↘
Employing talent In September we launched the first M&S *Limited Collection* for boys, and relaunched *Limited Collection* for girls, with a campaign shot by iconic fashion photographer, Rankin.

Only at YOUR M&S

No sweat! Using the latest fabric technology our Dry Extreme Shirt helps men stay dry and smart all day. It draws perspiration away from the skin and into the inner fabric, whilst the outer fibres reflect moisture and prevent discolouration. Within days of launch, it had become our fastest selling formal men's shirt online.

Menswear

Value market share	Volume market share
11.5% +0.7% pts	13.2% +0.1% pts

We had a very strong year in Menswear with market share up 0.7% to 11.5% by value. This performance was driven by improving our style credentials and delivering exceptional quality at great value.

Over the last 12 months we delivered better adaptations of the key fashion trends that worked for our different types of customers. For example, we recorded particularly good sales of Fair Isle knitwear – a strong look this winter. We were well placed to serve the growing popularity of more traditional, heritage fashions, such as Worsted pure wool tailored jackets.

Our reputation for quality helped drive strong performance in our heartland areas, such as day to day essentials like socks and formalwear. We also saw a sales uplift in key growth areas, with improvements to our men's footwear range boosting our market position in this category.

We gave customers greater choice in terms of fit and style and extended slim fit across more shirts and into other departments, such as tailoring. The streamlined cut has proved popular and slim fit sales have trebled this year.

Innovation continues to set our menswear apart from the competition, with 35% of our suits featuring innovations including our unique water repellent Stormwear™ finish, natural stretch and crease resistance. In March, we launched the Superlite suit, which weighed 20% less than our traditional Sartorial suit, and met customers' demands for a smart summer look that helped them keep cool.

Our brands

Blue Harbour is focused on our core customer and this year it retained its position as our biggest brand, despite the strong growth of *North Coast*.

The introduction of *North Coast* in 2008 filled a gap in our men's casualwear offer, much as *Indigo Collection* has in Womenswear. It delivered an outstanding performance in 2010/11 and we grew our casualwear market share for the second year running.

The relaunched *Collezione* range was a great success, appealing strongly to our core customers. With its emphasis on sophisticated Italian styling, fine fabrics and impeccable cuts the expanded range also includes leisurewear and accessories, making it easy for customers to shop for a coordinated look.

Following a successful online launch, we rolled out *Limited Collection* for men into selected stores across the UK. Building on our traditional strengths in tailoring, but with a slimmer fit and contemporary styling, the range has attracted a younger customer into our Menswear department.

↗
Fun fashion Our *Autograph* striped summer dress offered great on-trend style at great value from just £25.

↓
Latest look linen Injecting more choice and greater style credentials into our bedding boosted sales as customers looked for quick and easy ways to update their home.

Only at YOUR M&S

Stay sparkling Each flute is specially made with five laser-etched dots in the base of the glass to increase the surface area and act as points on which bubbles can form and rise upwards. This design feature helps keep sparkling wine and champagne fizzier for longer.

Kidswear

Value market share	Volume market share
6.6% +0.4% pts	7.1% +0.5% pts

In 2010/11 we grew our market share by 0.4% to 6.6% by value and to 7.1% by volume, and gained ground towards the number three spot for kidswear in the UK. We experienced strong growth across our newborn, toddler and younger boys and girls ranges and remained top of the class for back to school wear.

Value remains a key driver for growth in this market and parents trust M&S to deliver. That trust helped us grow our value market share in schoolwear to 16.4%, despite intense competition. Keen pricing was underpinned by continued innovation in areas such as fabric quality, durability and fit.

We worked especially hard during the year to improve our Kidswear style credentials. The speed and flexibility of our Turkish supply base enabled us to deliver fresh, on-trend collections throughout the year – growing market share in the fashion conscious older girls' category and attracting younger mums to shop with M&S.

On the back of this success, we see further growth opportunities in Kidswear, particularly in essentials such as underwear and sleepwear. In the year ahead we will make our sub-brands, such as *Autograph, Indigo Collection* and *Limited Collection* more distinctive and will continue to develop a more stylish and relevant offer for older children.

Home

Home sales

£488.2m*
+1.6%

*This figure excludes Beauty which was stated as part of the 09/10 figure.

In a difficult trading environment, M&S Home performed well, with sales up 1.6%. Over the last 12 months we took several steps to drive the business forward, improving the way we showcase our Home range and drawing on our natural strengths in fashion.

We integrated our Clothing and Home design teams more closely, bringing a keener style element into our soft furnishing and wider accessories ranges such as kitchenware. We also introduced 20% more pattern choice in our bedding ranges, resulting in an 11% sales increase.

Innovation plays a key role in product development. From easy-care linens to the 'extra clean' non-smear glass range, we continued to provide new, practical solutions to fit our customers' lifestyles. Notable among our key launches in 2010 was the revolutionary Sonoma fold-out wardrobe which can be assembled in just four minutes.

Whilst some 45% of our furniture sales last year were online, space constraints in stores remained a challenge. In November, we announced our intention to withdraw our technology range from stores to free up additional space to expand our growth departments such as kitchenware and dining, bedding and bath.

We see significant growth potential in Home, as currently only 20% of our customers shop in this department. This year we set out clear plans to make our Home offer easier to shop by better segmenting it under three distinctive lifestyle categories – *Classic, Contemporary* and *Design*. In line with this, we recently launched an exciting new collaboration with Conran, to design an exclusive contemporary homeware range that will be available in store from September.

Availability

This year we rolled out a new stock management system across Clothing and Home to give us better visibility of our rate of sale. This has improved availability and in November we set a target to deliver 9% improvement by 2015. To ensure our customers can find their favourite items every time they shop with us, we have identified our top 100 selling products and are working hard to increase availability on these specific lines.

Looking ahead

In a climate of economic uncertainty, our priority remains to deliver exceptional value and unrivalled quality for our customers. As we deliver on our plan, our customers will see stronger fashions in the M&S core brand and clearer, more distinctive sub-brands.

In Home, we will capitalise on the growth opportunities by adopting more of a lifestyle approach and making our Home offer more accessible in our larger stores and online.

Food

"Our exceptional quality and market leading innovation sets M&S food apart from the competition."

John Dixon Executive Director, Food

This year we consolidated our position as the UK's leading high quality food retailer. Building on our strong heritage of quality and innovation, we renewed our focus on freshness, speciality and convenience, launching first to market products. Customers responded well. Total Food sales were up 4.1% to £4.5bn, with like-for-like sales up 2.6%.

Food sales	Value market share
£4.5bn +4.1%	3.9% +0.1% pts

Overview

During the year many customers have chosen to do more of their shopping with M&S, recognising our exceptional quality, increased innovation and improved values.

Our customers love to find new and exciting products on our shelves and this year we gave them even greater choice, delivering on our promise to refresh 25% of our Food range.

As disposable incomes remained under pressure, more customers came to M&S, recognising that we offer great value and unrivalled quality. Two years ago we took the decision to invest in our margins to give our customers even better value, without compromising our quality standards. We are now seeing the benefits of this decision, with improved perceptions of value over the last 12 months.

Better management of promotions and tighter waste control have helped us offset the commodity price increases the market experienced and improve our food margins.

We also worked hard to ensure our customers could find their favourite products every time they shopped with us. We rolled out new stock management systems that provide us with real time data, giving us better visibility to help improve on-shelf availability.

Quality still underpins everything we do. This year we continued to deliver award-winning products that are sourced responsibly and meet the highest ethical standards.

Quality

Our reputation for exceptional quality sets us apart from our competitors. Customers continued to rank us the best in the market for great quality food. We received numerous awards during the year, including Supermarket of the Year at the International Wine Challenge for the third year running and Supreme Cheese Retailer at the prestigious Nantwich International Cheese Awards.

Our product development teams are constantly looking to enhance all aspects of quality across our ranges, from improving flavours to extending shelf life. Our exacting standards extend right across our ranges from the everyday to the exotic, from our super soft white bread, which is developed without preservatives to our exclusive to M&S 'Lusa' strawberries. This year, for the first time, our 'Lusa' variety has been available in all our stores for the early springtime strawberry season. Unlike many other high street varieties available at this time of year, the Lusa strawberry is sweet, juicy and full of flavour.

Only at YOUR M&S

Super Sweetini tomato
In conjunction with our long-term partner Bernard Sparkes at Melrow Salads, we have put in place a new growing regime to help achieve the perfect balance of sweetness and acidity producing a great tasting, full flavoured tomato.

Solo dining Our innovative In a Pot meals are the perfect size portion for one person. The containers are transparent so shoppers can clearly see the layers of delicious fresh ingredients.

We are never complacent and we continue to work hard to improve bestselling lines, with new ingredients or new technologies that improve eating quality.

In September, we upgraded our popular Ready to Roast joints and sales increased as a result. Working with our supplier we created a new ‘umami’ butter brine, in which we marinate the meat. This enhances flavour and also improves tenderness. We then cook the joint slowly to guarantee the succulence of the product.

We work closely with our suppliers to ensure they adhere to our high quality standards. For example, this year we teamed up with our British growers to create a new fruit quality standard, ‘Perfect Pick’. A team of experts monitors our orchards to identify the best flavour fruit and works with each grower to choose the optimum picking date – which ensures our customers enjoy apples at their very best.

In line with our Plan A commitments, our customers trust us to source responsibly and maintain the highest ethical standards. We continued to lead the way and last year we became the first retailer to sell Fairtrade vegetables. We were also recognised by Greenpeace for our leading position on sustainable fishing as all our tuna is pole and line caught.

Innovation

Innovation is the lifeblood of our Food business and we are recognised worldwide for our leadership in food product development. Customers ranked M&S above the competition when it comes to delivering new and interesting food. This year we stepped up our rate of innovation, introducing over 1,800 new products to our Food Halls.

↑
Lovely Vegetables This brand new range is regularly updated, using seasonal British vegetables wherever possible. Each dish is full of flavour, texture and colour and contains at least two of your five a day.

→
Christmas cracker Customers turned to M&S for great quality food at the most important times of the year. Our Pork Belly Squares were just one of 250 new lines introduced for Christmas. They proved popular and we sold over 200,000 packs during the festive season.

↓
Just desserts Inspired by the British tradition of afternoon tea, the Mini Dessert Sandwiches were one of the highlights of our festive party food range.

Brand new biscuits In July we redesigned our entire range of biscuits. Made with free-range eggs and free from artificial colours and flavours, we launched 40 new varieties including unique to M&S All-Butter Layered Cookies and Belgian Waffle Sandwiches.

Only at YOUR M&S

British Christmas geese
Based at Seldom Seen Farm in Leicestershire, M&S suppliers Claire and Robert Symington began rearing geese over 20 years ago. Starting with just 30 birds they raised over 4,500 for Christmas 2010. Each bird grazes free range and eats home grown corn, ensuring they are completely free from additives and chemicals.

Our product developers take inspiration from around the world, introducing our customers to the latest food trends and inspiring them with new variations of old favourites. In April we launched Taste Italia, offering a new way of enjoying Italian food based on the Venetian concept of cicchetti – meaning 'pick-me-up' – the small snacks or side dishes, typically served in traditional 'bacari'. The range includes a selection of dishes such as Pancetta and Parmesan Potatoes and Tomato and Mozzarella Risotto Bites, which are ideal for sharing. Taking the lead from New York food trends, we also introduced new salted caramel treats such as All-Butter Salted Caramel Biscuits and an indulgent Salted Caramel Sauce.

This year we developed new ranges to cater for customers' changing eating habits. In June we launched our Made Without Wheat range of gluten-free bread and cakes for our customers with wheat and gluten allergies. Based on its success, we extended the range to include specially developed gluten-free sandwiches, sausages, stuffing and crisp bakes and we now sell over 125 gluten-free products. In January we launched our Lovely Vegetables range. Designed to appeal to the growing number of customers who are looking to lower their meat consumption, each dish contains a minimum of two of the recommended five a day.

Over the last 12 months we've provided customers with new convenient cooking solutions, such as our Terribly Clever Roast Potato Sprinkles, which help achieve the perfect crispy finish. In September we launched a range of In a Pot meals, to meet the growing demand for meals specifically designed for one person. The format was introduced across a range of dishes from Fish Pie to Spicy Prawn Linguine and sold over 180,000 in the first week alone.

January is the most competitive month in the healthy eating market and in 2011 M&S was the clear winner. Just a year after launch, our Simply Fuller Longer range became the UK's second favourite health food brand, beaten only by our trusted and hugely successful count on us™ range, now in its eleventh year.

Simply Fuller Longer encourages customers to manage their weight sensibly with a menu plan featuring a carefully calculated balance of proteins and carbohydrates. This year we extended the range further to give those following the programme more choice and flavours, such as Asian Style Salmon Salad and Spanish Style Chicken and Chorizo Soup.

Value and promotions

Over the last 12 months more customers have noticed the great value M&S offers. This was driven by highlighting our great values on core products and a focus on creating bigger, more impactful promotions, such as our successful '3 for £10' offer on meat and fish.

Promotions remain an important driver of footfall, encouraging the occasional shopper to visit our stores more regularly. Our highly successful 'Dine In' promotions allow customers to enjoy a great value, restaurant-quality meal at home and provide a perfect vehicle for us to showcase our newest products. They continued to increase in popularity and we sold over 15 million 'Dine In' meals during the year. We have continued to extend the idea into other meal format promotions such as 'Roast Dinner for £5'.

Throughout the year we have successfully used promotions to encourage customers to shop across different categories, for example with our 'Whole Chicken and Dessert for £5' deal. We have also promoted convenient scratch cooking through our new 'Recipes to Try' cards, offering all the ingredients necessary to make a delicious meal, such as seared fillet of sea bass with Singapore pea shoot, coriander and Pad Thai noodles for just £6.

As part of our commitment to value, we regularly price check against our closest competitors on a weekly basket of more than 1,200 products, ensuring we are comparatively priced with key competitors.

→
Terribly Clever In September we launched Terribly Clever – a range of convenient, innovative cooking solutions. From sauce bases to potato sprinkles, each easy to use product is designed to help customers cook at home with confidence and produce great tasting food.

↘
Half & Half Launched in September our Half & Half Super Soft Loaf helps put an end to arguments over whether to buy wholemeal or white. Designed to open at both ends, it means families can enjoy the best of both.

↓
Portion control In January this year we launched a range of sweet and savoury portion-controlled snacks, developed to give customers 'more bite for their calories'. Each individually wrapped snack has fewer than 150 calories and the range includes cake bars, crisps, popcorn and dried fruit and nuts.

↓
Award-winning sandwiches Thirty years ago M&S sold the UK's first pre-packed sandwich. Today one in every five sandwiches bought in the UK is from M&S, making us the UK's number one sandwich retailer. We were delighted to pick up 'Sandwich Multiple Retailer of the Year' and 'New Sandwich of the Year' at the British Sandwich Awards 2010.

What we do best

Customers trust M&S at the most important times of the year. In 2010 we delivered a great Christmas for them, introducing over 250 new festive lines. Our 'Classic' range provided great value for all the family, and 'The Collection' offered the very best in traditional Christmas recipes with beautiful finishes. Highlights included spectacular centrepieces such as the Jingle Bell chocolate and raspberry dessert and tempting party food such as our barbecue-glazed pork belly squares and wrapped giant tiger prawns.

The severe weather had a small impact on Food sales in December, but there were no major reported shortages as a result of the snow and almost every store received a daily delivery through the peak trading period. We recorded our biggest ever day in Food on Thursday 23 December with sales of more than £50m.

We launched four new lines in flowers specifically for Valentine's Day. Our £5 single red roses were the Ecuadorian 'Freedom' variety; considered to be the best in the world for their strength, large heads and long stems.

Looking ahead

In the plans we set out in November, we committed to increasing our total Food range from 7,000 to 8,000 lines including the introduction of 100 distinctive international brands not available in UK supermarkets. At the same time we will reduce the number of non-M&S brands we sell.

We will continue to grow sales through improved choice and better availability, making the best use of our displays and available space. We have set a target to improve availability in Food by 5% by 2013/14. Our new systems will enable us to tailor our ranges more closely to suit the tastes and preferences of customers visiting our stores. As consumer spending remains under pressure, we will continue to give our customers more reasons to shop with us, by providing them with new and inspiring products at great M&S quality and value.

Our UK stores

Our stores: total UK portfolio

703

10 Premier
42 Major
240 High Street
46 Outlet
163 Simply Food (owned)
202 Simply Food (franchised)

Our stores remain the most popular way for our customers to shop with us, with 21 million people visiting every week. This year we continued to grow our presence in the UK, ensuring our stores are in the most convenient locations. During the last 12 months we have added or developed 700,000 sq ft of retail space. We encouraged better in-store service – introducing a new, more challenging mystery shopping programme and setting out plans to make our stores even easier to shop.

↑
Plan A Champions Our 1,000 plus Plan A Champions take a lead in our in-store initiatives such as hanger recycling.

↓
Brew up for a good cause The World's Biggest Coffee Morning is Macmillan Cancer Support's biggest fundraising event. Launched by Katherine Jenkins, M&S was the official partner in 2010 and raised £400,000 for the charity.

Space development and growth

This year we continued to develop our UK store portfolio by focusing on the following five key elements of our store strategy:

- add new and extend major stores out of town
- enhance our position in major cities
- expand our presence in retail parks
- continue and complete modernisation and review underperforming stores
- build our successful Simply Food business

We identified over a dozen new sites for out of town development over the next five years and have extensions underway at our Shoreham, Westwood Cross, Trafford Centre and Metrocentre, Gateshead stores. We completed two major extensions at our Gemini Retail Park, Warrington store and in Torbay. Work is progressing at our new 150,000 sq ft flagship store at Cheshire Oaks. This state of the art store is the largest built by M&S in over ten years and is due for completion in September 2012.

We have strengthened our position in major cities. In September we will open a 136,000 sq ft anchor store at the new Westfield Stratford City, on the edge of the Olympic Park. We are also undertaking a significant extension to our Norwich store which includes full modernisation and an additional 36,000 sq ft of selling space.

→
Spotlight on service Our new Spotlight Awards provide on the spot recognition for great customer service in store. Prizes help boost employee morale and we have seen improving mystery shop scores since the programme's introduction.

The growing popularity of retail parks offers significant opportunities for us to expand our presence. We currently have 32 retail park sites and this year opened two new stores at Haverfordwest and a Home and Food store at Tunbridge Wells. We have also identified 12 new schemes across the UK.

This year we took the difficult decision to close four underperforming stores. We unfortunately found they were no longer commercially viable and following careful consultation with employees and the local community they ceased trading in January 2011.

We continued to grow our Simply Food business, opening seven new wholly-owned stores in key locations including Glasgow and Newbury. Through our franchise partner SSP we have also extended our successful 'travel-hub' formats at locations such as railway stations and airports.

Service in store

Since its introduction in 2006 our mystery shopping scores have grown from 70% to 88%. This year we rebased these scores and set new, more challenging targets – enhancing the programme with a more thorough questionnaire, the introduction of specially trained 'super shoppers' and a repositioning and scoring of 'hot topics' – our most important areas. Focused on the behavioural aspects of service – such as positivity and taking ownership – these changes are built around giving the customer a better experience and will push us to continually improve our service. Since the introduction of the new programme in April, we have seen average monthly scores improve by 11%.

Try it – then buy it In November we launched a 'Specials Menu' in our award winning cafes to showcase new products and encourage more customers to shop our Food department.

Cutting carbon Our greenest ever store at Ecclesall Road, Sheffield is on track to receive an 'Excellent' BREEAM rating. Its carbon emissions will be 23% lower and energy usage 30% lower than a traditional similar sized store.

Only at YOUR M&S

Green energy This year, M&S doubled the amount of energy sourced from small scale suppliers, such as farmers and landowners. We now directly source an average of 5GWh of 'green' energy per month, equivalent to the electricity used by 100 M&S Simply Food stores. One example is Hammars Hill Energy, a wind farm in Orkney which, since January 2011, has supplied M&S with an average of 1.4GWh per month from its five wind turbines.

In-store environment

Our aim is to create an inspiring in-store environment that encourages our customers to shop across our different product ranges. As set out in Marc Bolland's review on page 6 this year we have begun work to make our stores easier to shop by refreshing their look and improving navigation.

Our hospitality business also plays a crucial role in creating a welcoming store environment. This year we introduced new format cafés and kitchens to help encourage customers to spend more time in store. Our restaurants and cafés also serve as a vehicle to tempt customers to try new products that they can later buy from our Food Hall.

Infrastructure

This year we introduced a new stock management system across all our stores, which has helped improve availability by providing us with a more accurate real-time picture of our stock levels.

During the year we rolled out a new point of sale system to over 327 stores. The new system simplifies processes at the till – making it easier for new staff to learn and use. This has resulted in reduced queue times and a better customer experience at the till.

Building on Plan A

Plan A is incorporated at the heart of our property strategy. We are on track to achieve our energy saving target of 35% by 2015 and 50% of our electricity is now sourced from a green tariff. Thanks to the commitment of our store teams we are also on track to deliver zero waste to landfill by the end of 2012.

Our new Ecclesall Road store opened in Sheffield in April and is our most sustainable UK store. Built from scratch on a brownfield site, it incorporates a host of innovative and sustainable design and construction features including toilets operated using harvested rain water. The store is the first of a number of planned 'Sustainable Learning' stores, which will further increase our understanding of sustainable construction techniques and processes.

Looking ahead

In November we set a target for 95% of the population to be within a 30 minute drive of a full-line M&S store by 2015. To achieve this goal we are committed to opening c.3% of new space within the UK every year until 2015/16.

In the future we plan to better segment our stores to ensure they meet the needs of the local population. We will also begin the roll-out of our new store design programme and our customers should start to see these improvements from September.

Multi-channel

M&S Direct sales

£543m
+31%

Includes website and mobile web, home catalogue, flower and wine delivery, Food to Order party catering service, lunchtogo, Shop Your Way and call centres.

In 2010/11 we further developed our Multi-channel business, making it even easier and more convenient to shop with M&S. As a result M&S Direct sales were up 31% and online conversion rates improved. An extended Shop Your Way service and our new mobile website helped drive this growth and ensured customers could shop with M&S anytime and anywhere.

Shop Your Way

Launched in July 2009, Shop Your Way allows customers to place orders for clothing, beauty and homeware in stores, online, over the phone and – since April 2010 – using the mobile web. They can specify delivery to an address of their choice or collect their order free of charge from a nearby store. During the year we rolled out the service to 444 stores, including 151 Simply Food stores. Customer feedback continues to be very positive and we will extend Shop Your Way further in the coming year.

Website

More of our customers shopped online with us this year, resulting in an increase in site traffic of 18% on last year. We experienced particularly good growth in dresses, footwear and lingerie, with some 24% of our schoolwear and 45% of our furniture purchased online.

During the year we made a number of enhancements to our website to improve customer experience and encourage more shoppers to complete their transactions. As a result, conversion of traffic has increased throughout the year.

As traditional online retail matures, mobile is expected to be the principal growth area for internet shopping. In May 2010 we became the first high street retailer to launch a fully mobile-enabled website. Customers can now shop with M&S from any web-enabled mobile phone or device.

To date the site has had 5.5 million visitors, generating over 59,000 orders and has been recognised with five industry awards including Most Effective Mobile Site at the EMMA Effective Mobile Marketing Awards 2010. Increasing numbers of customers are making larger purchases such as beds and sofas from their mobile phones.

Reflecting the growing demand for an interactive shopping experience, we launched an improved ratings and reviews function in October. This attracted an average of 1,200 product reviews per week in the first five months. Reviews provide M&S and our customers with valuable information about our products, helping us to provide more of what our customers want and understand where we can improve. The new format asks for more detailed feedback about the fit, style, quality and value – as well as information on the reviewers themselves. The facility was extended in March to include furniture reviews and ratings.

We know customers who read reviews are more likely to make a purchase than customers who don't. So in March we launched post-purchase emails to encourage customers to share their views on items they have bought. Emails are sent to customers two weeks after each purchase – five days on flowers – suggesting they post a review online. Subsequently weekly reviews have increased to 10,000.

↑
Christmas helper Our dedicated Christmas microsite helped customers organise their festive celebrations and included a gift finder and party planner.

↑
Redesign of M&S TV player In March 2011, the M&S TV player under went a complete redesign to make it more engaging and interactive to customers. Content is now more accessible and easier to navigate.

→
Most viewed M&S TV films Customers love to use M&S TV for behind the scenes access and since launch in March our summer TV ad has been viewed over 110,000 times.

↑
Myleene's Makeovers Myleene Klass fronts a new weekly show on M&S TV, providing customers with the latest fashion news and sneak previews of our new ranges.

YOUR M&S TV

Only at YOUR M&S

Food to Order wedding cakes
In the year of the Royal Wedding we relaunched our entire range of wedding cakes. Alongside traditional fruit cakes we now offer a range of modern alternatives including tiered chocolate cakes and cupcake towers. Hand-made to order and exclusive to M&S, we have a dream cake for everyone's big day.

Customers also use our website as a source of information, so this year we launched 'Smart FAQs'. This easy to use 'search engine' provides customers with relevant answers in real time, as well as a dynamic ranking of the top ten frequently asked questions. The service has reduced the need to email or phone our service team for basic queries, such as opening hours and keeps customers happier and shopping on the site for longer.

M&S TV

M&S TV allows us to share our products, expertise and innovations with our customers in a lively and engaging way. Since launch in 2009 we have produced some 900 videos, which have had nearly seven million views and prompted over 900,000 'buy' clicks. In August we relaunched the service, with a new series of weekly films fronted by Myleene Klass, featuring real customers from different age groups.

Social media

The growth of social media has driven customer engagement with M&S. We now have over 265,000 Facebook fans and 21,000 Twitter followers, helping us gain further insight into customer shopping habits and keep them updated with our latest initiatives. This year our Facebook news posts received over 132 million views and over 105,000 people posted feedback. Increasingly, social media activity is translating into sales as customers become more comfortable shopping through new channels.

Building our multi-channel business

In November we set out clear plans to develop our multi-channel operations over the next three years. In the second half of the year we made good progress against these plans.

In February we appointed Laura Wade-Gery as Executive Director, Multi-channel E-commerce. Laura's appointment significantly strengthens our management team and will help accelerate the growth of this business.

We also announced that we would exit our partnership with Amazon when our existing agreement ends in 2013/14. This will enable us to build and manage a new platform for marksandspencer.com and offer a more customised multi-channel experience for our customers.

In April we announced our first international transactional website, marksandspencer.fr. Due to launch in late 2011, our French language website will offer a full range of womenswear, lingerie, menswear, kidswear and homeware. The site will trade in euro and offer local delivery prices, providing opportunities to serve customers throughout France. We plan to set up further tailored websites for specific local markets from 2013.

As part of our plans we will continue to provide customers with new ways to shop with M&S. We are exploring several new technologies and since February have been trialling touch screen ordering points in six stores. We will expand this trial to 20 stores in September 2011.

Our multi-channel offer will be underpinned by an effective distribution network and in December we confirmed our plans for a dedicated national e-commerce distribution centre in Castle Donington, Leicestershire. The new 900,000 sq ft site will open in 2013 and will service all customer orders placed through Shop Your Way.

Looking ahead

We have clear plans to grow M&S into an international multi-channel retailer and have set a target to grow sales by £300m and £500m by 2013/14. Our investments in new warehousing and systems have given us a solid foundation on which to build our Multi-channel business, making the M&S brand more accessible to more customers – both in the UK and internationally.

International

International sales

£1,007.3m
+6.1%

Total stores

361

Territories

42

In 2010/11 International sales grew 6.1% to just over £1bn, and underlying operating profit rose by 8.6% to £147.0m. We opened 49 new stores during the year, giving us an additional 560,000 sq ft of space. We now have a total of 361 stores in 42 territories. This year we shared our plans to further expand our international presence, making the M&S brand more accessible to customers around the world and reduce our dependency on the UK economic cycle.

↓
Catwalk style Working with franchise partners Fiba, we introduced our spring/summer collection with a fabulous fashion show held in Istanbul. M&S model, Ana Beatriz Barros was the star of the show.

Developing our International business

We have made good progress against our plans to make M&S a more international company. In February we announced the appointment of Jan Heere as our new Director of International. As a member of the Management Committee, he will lead the delivery of these plans, as detailed in Marc Bolland's strategic review on page 7.

We have developed a new organisational structure to support our growth ambitions. We integrated our International General Merchandise and Food teams with the UK operations, placing our International activities at the heart of the business and aligning them more closely with our UK product development and buying cycles.

During the year we took several steps to improve the efficiency of our supply chain. We reduced the number of international products shipped via the UK by 13%. Over 31% of stock now moves through our four regional hubs in Sri Lanka, China, Istanbul and Singapore, direct to its destination.

Our International Range Planner has been in place since January 2009, enabling us to buy more efficiently and tailor product better to suit local markets. We have also launched several initiatives to better coordinate and improve store design, visual merchandising and share best practice from our UK operations.

Our International business model

Our International business model is made up of partly and wholly-owned subsidiaries and franchises. This mix allows us to tailor ownership models that are appropriate for specific markets, enabling us to build strong partnerships and expand the M&S brand into new territories.

Wholly-owned

In China we have focused on building our presence in the Shanghai region. This year we opened three new stores: at the key tourist location of Yu Gardens, in the suburban Skymall to the south-west of the city and at Century Oriental Plaza, Ningbo. We continued to enhance our expertise in Shanghai, establishing a strong local management team to ensure we have the right offer for our customers in this region.

We also opened a new warehouse and increased our local sourcing activities. We now offer sizes 4 and 6 in our womenswear ranges and have tailored our men's shirts and trousers to give the best fit for local customers.

In Hong Kong we opened our first international standalone Food store in Wan Chai. We also opened a General Merchandise and Food store at East Point City in January 2011 and another store is due to open in May 2011 in Central Kowloon. We now have a total of 12 stores in Hong Kong and see excellent growth potential here, particularly in fashion.

Trading in the Republic of Ireland continued to be impacted by the weakness in the local economy. However we are well positioned for when trading conditions improve and remain committed to developing the business there.

In April 2011 we announced our plans to return to France, with a combined e-commerce and retail strategy. We will open a new flagship store in the heart of Paris on the Champs Élysées in late 2011, offering a selection of womenswear, lingerie and food. The French language website, detailed on page 27, will also launch towards the end of the year, helping us capitalise on the strong awareness of the M&S brand in France ahead of Christmas trading.

YOUR *Only at* M&S

Fast response fashion
Working with our regional hub in Turkey we can turn around ranges inspired by the latest catwalk trends in as little as six weeks. With our Turkish suppliers ACT we create unique to M&S fabrics, such as the 70s style print featured below, which was used across our spring/summer *per una* collection.

→
Raise a glass Three of Marks & Spencer's wines – Oudinot Vintage Champagne, Australian Shiraz and Flaxbourne Sauvignon Blanc, won gold medals at the China Sommeliers Wine Challenge 2010.

↑
Made to measure Shoppers in our SkyMall store, Shanghai now have access to a more tailored clothing offer.

↑
Return to France Marc Bolland hosted a press conference on the Champs Élysées to mark our return to Paris. The French media enjoyed a catwalk show of the M&S clothing ranges and sampled our latest food innovations.

↓
Top marks Shalini Naagar is Head of Human Resources at Marks & Spencer Reliance India. Joining in June 2008, Shalini was the first employee of the partnership. She is responsible for over 500 employees, ensuring M&S policies are effectively implemented in India and was recently recognised for her contribution to the field with a 'Global HR Excellence Award'.

Partly-owned

India remains a priority market for us and throughout 2010/11 we saw good like-for-like growth. In partnership with Reliance Retail, our strategy is to focus on key cities such as Delhi. We opened four stores during the year and now have 19 in India.

We have made our pricing more competitive through better local sourcing. Over 50% of products are now sourced from the region and this has resulted in a more tailored proposition for our Indian customers.

We continued to grow our business in Central and Eastern Europe, opening 12 new stores mainly in the Czech Republic and Poland.

The economic situation in Greece remained challenging. However, with a strengthened management team and continuing rigour in stock control, the business is well positioned for when trading conditions improve.

Franchise

We opened 24 new franchise stores this year and franchise operations now account for approximately a third of our International sales. We worked hard to create a more collaborative culture with our key franchise partners, and this year we opened our first store in Cairo, Egypt with our Gulf partner Al-Futtaim. We also opened five new stores in Russia, four in Turkey and four in the Ukraine with our franchise partner Fiba.

We are also exploring opportunities with our established UK franchise partner SSP to support our return to France. We plan to open a number of Marks & Spencer Simply Food stores at strategic locations in and around Paris to complement our flagship store offer.

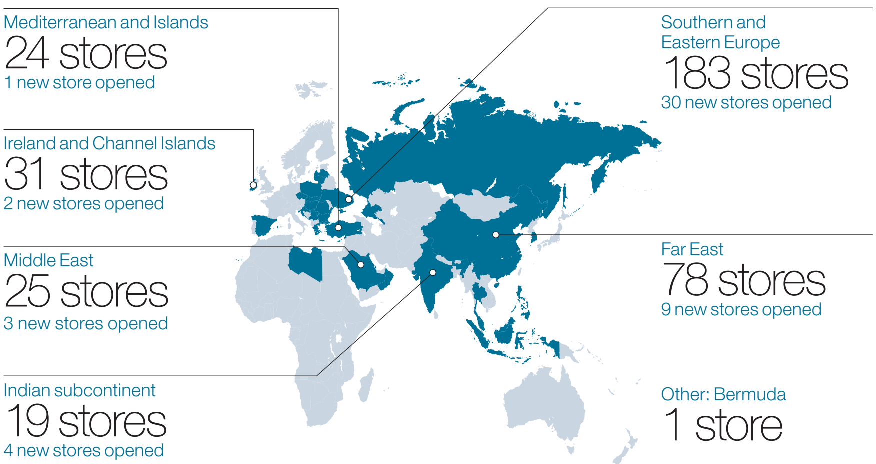
Looking ahead

We have an opportunity to move M&S from a UK retailer that exports to a true international business. We have set a target of growing our International sales by between £300m and £500m by 2013/14. We will, where necessary, reshape our supply chain and build our international capabilities to help create a platform for future growth.

We will continue to apply the most suitable ownership models to different markets, with the emphasis on forging strong relationships in our franchise operations and adopting partly or wholly-owned models where appropriate. We will build a strong leadership position in our priority markets by operating flagship stores, surrounded by smaller supporting stores. To complement our stores, we will introduce more tailored websites for specific local markets from 2013.

Our International operations

A net total of 34 new stores in 2010/11



Plan A

Total Plan A commitments

180

Commitments achieved

95

Commitments on plan

77

Plan A DOING THE RIGHT THING

M&S Advisory Board

World's Most Sustainable Major Retailer

Marc Bolland – CEO Marks & Spencer

Jonathon Porritt – Founder Director, Forum for the Future

Aron Cramer – President & CEO BSR

Rebecca Henderson – Professor of Environmental Management, Harvard Business School.

Ritu Kumar – CEO TERI-europe

Martha Lane Fox – Non-executive director, Marks & Spencer

Peggy Liu – Chair of Joint US – China Collaboration on Clean Energy

Gavin Neath – SVP Communications and Sustainability, Unilever

David Nussbaum – CEO WWF-UK

David McCullough – Trading Director, Oxfam-GB

↗
Find out more about the progress we have made this year in our How We Do Business Report 2011 at marksandspencer.com/hwdbreport2011

2010/11 has been another year of progress for Plan A as we move towards our goal of becoming the world's most sustainable major retailer. Four years since launch Plan A is delivering real benefits to our customers, employees, shareholders and suppliers as well as local communities and the environment. This year Plan A generated a net benefit of over £70m. Achieved by a combination of increased efficiencies and new business opportunities, this profit growth demonstrates the pace at which we have accelerated Plan A – putting it at the heart of how we do business.

Overview of the year

Last year we set out 80 new commitments to build on the 100 we made when we first launched Plan A in 2007. We have now fulfilled 95 of these 180 commitments and are on plan with a further 77.

We strengthened the governance of Plan A and there is now greater Board level involvement than ever before, with bi-monthly meetings to ensure our executive team play an active role in defining Plan A strategy. Both executive directors and Management Committee members also have Plan A targets that directly contribute to their personal performance bonus.

In March we established an external advisory board to help support our journey to becoming the world's most sustainable retailer. Co-chaired by Marc Bolland and Founder Director of Forum for the Future, Jonathon Porritt, the panel includes independent sustainability experts from academia, industry and leading NGOs – to help challenge us to maintain our leadership position and think beyond 2015.

Involving our customers in Plan A

Over the last 12 months new initiatives have helped us take Plan A into the lives of our customers. We've successfully involved our customers in campaigns including the Big Butterfly Count, HRH The Prince of Wales' START sustainability initiative and M&S Gadget Recycling. In both autumn and spring we ran a 'One Day Wardrobe Clear-out' which saw over 750,000 items of clothing returned to our stores, worth over £2.2m to Oxfam. Anyone donating clothing received a £5 money off voucher to spend in store against a purchase of £35 or more.

Between June and September, 340 M&S stores successfully completed a charity challenge, exceeding their target to raise over £1m in 100 days. Stores selected their own beneficiaries and over 300 charities benefited from their efforts – from national charities such as Breakthrough Breast Cancer to local causes such as hospices and air ambulance crews.

Making Plan A how we do business

Putting Plan A at the heart of our business forces us to innovate – challenging ourselves to think of new and better ways of doing things. To support this activity we launched our Plan A Innovation Fund in June, and established an Innovation Board to manage the Fund over the next five years.

Approximately £10m has been invested since launch, providing resources for both M&S teams and our suppliers to support early stages of Plan A product and service development. Approximately 75% of the funds supported larger-scale research projects on energy efficiency, water consumption, dual fuel vehicles and biodiversity audits. The remaining £2.5m funded over 40 smaller projects on issues including lower-fat dairy products, sustainable farming and paperless billing.

Climate change

We've succeeded in reducing our total carbon emissions by over 90,000 tonnes since 2006/07 – an improvement of 25% per sq ft of sales floor. Much of this is down to a 23% improvement in store and warehouse energy efficiency.

We grew our M&S Energy business during the year, introducing a range of solar pv and solar thermal water heating solutions to help customers cut their carbon emissions and reduce their energy bills.

With the aim of helping colleagues to cut their household bills we distributed almost 38,000 energy monitors free of charge to our staff in October. To date we have also installed free loft insulation in the homes of 4,000 employees.

Autograph Leaves collection
With suppliers MAS Intimates Thurulie, M&S has created the first ever carbon neutral lingerie. The carbon calculation takes into account each item's complete life cycle: from component manufacture to transportation and even customer usage.

↑
Plan A shoe boxes Designed with sustainability specialists Eco Ezee, our new shoe box will be used for over 1.5 million pairs of shoes this autumn. Made from 100% recycled, compostable waste paper and card, the boxes provide structural support during transit without the need for additional packaging, reducing packing time in both factory and store.

↓
Simply More range Our new range of everyday essentials is enriched with beneficial ingredients to provide a daily super boost of different nutrients that benefit bones, heart, immune and digestive health.

Waste

We made excellent progress this year – with total waste down 34%. On average 94% of waste from our stores, offices and warehouses was recycled. All the waste from our food sections was sent for energy recovery processing and we increased the number of clothing hangers collected to 152 million, with 79% being reused and the remainder being recycled into new hangers.

Natural resources

We performed well across our targets, with improved sourcing resulting in 76% of our paper, pulp and wood being 'Forest Stewardship Council certified', 'recycled' or from 'sources that otherwise protect forests and communities'.

Farming for the Future is M&S' sustainable agriculture programme, with modules in both our 'Field to Fork' standards for crops and produce and 'TRAK' standards for meat, poultry and farmed fish. The programme engages suppliers to develop new standards and codes of practice covering emissions, waste, water and supporting biodiversity.

Some 90% of our wild fish now meets our sustainable sourcing standards. This year we also took a major step towards our commitment to use only certified sustainable palm oil in our products by 2015 and extended our sustainable palm oil range to include 35 products.

Fair partner

Under this pillar we aim to improve the lives of thousands of people working in our supply chains. This year we've continued the extension of our Ethical Model Factory programme adding three factories in India. We've provided training to 37,000 workers to help improve their understanding of employment rights.

In April 2010 we launched Milk Pledge Plus to reward dairy farmers who achieve high standards for animal health and welfare as well as on-farm conditions. We've now extended our buying pledge price premiums to cover speciality Brecknock and Swaledale lamb along with UK pork.

Health and wellbeing

New ranges have helped provide our customers with even more healthy eating options. In March we launched 'Simply More' – a range of everyday essentials, enriched with beneficial ingredients to give customers and their families a daily boost of nutrients to benefit bones, heart, immune and digestive systems. The range includes skimmed and whole milk with added Vitamin D and Omega-3, yogurt shot drinks with pre and probiotics and a sliced white loaf with added fibre.

Looking ahead

Plan A is an integral part of the M&S brand, which sets us apart from the competition. In the year ahead we aim to retain our leadership position and make Plan A even more relevant to our customers.

Our people

Total number of employees

78,000

Employees with us for over five years

46%

Employees with us for over ten years

27%

Top 50 for women This year M&S was named as one of The Times Top 50 Employers for Women. Female employees now account for 48% of our store managers and 65% of our managers.

Only at YOUR M&S

Best Marks & Start Achiever 2010
At 18, single mum Amy Smith (right) was living in a hostel with her two year old daughter. Determined to create a better life, Amy joined Marks & Start through The Prince's Trust. She excelled at the programme and was offered a permanent job on graduation.

Our people make the M&S difference. Their enthusiasm, commitment and ideas drive us forward, keeping us at the forefront of customer service and product quality. This year we focused on embedding our people development programmes and further raising the talent and capability levels across the business.

Overview

M&S employs over 78,000 people in the UK and around the world. Our employee turnover fell for the third year running and is, at 14%, one of the lowest in the retail sector. Some 46% of our employees have been with us for more than five years. Absence levels have fallen for the second year running.

Training and development

We continue to look ahead to ensure we have a pipeline of talent to help us achieve our long-term objectives. In support of this, we run several tailored training and development schemes, designed to help our people fulfil their potential. Lead to Succeed is our flagship leadership programme and over 100 of our senior managers participated this year. Since launch, over 300 senior managers have completed Lead to Succeed. The programme is built around our core business values and is firmly aligned with the business strategy – developing the skills that will best support our future growth.

Our popular graduate scheme continues to flourish, putting candidates on the fast track to management. This year we had over 11,000 applicants for approximately 180 places. We also introduced an MBA programme to enhance our talent agenda and the first four students will start in September.

Marks & Start is our work experience programme for the homeless, disabled, lone parents and young unemployed. This year approximately 840 people took part in the programme, supported by a coach and M&S buddy. Approximately 40% of those involved in the programme go on to gain full time employment. One of our new initiatives involved a partnership with HM Prison Send in Woking. We ran a series of training programmes for women offenders to build confidence and prepare them for the world of work.

Rewards and benefits

Launched in April 2010, our new Spotlight programme for store employees gives on-the-spot recognition for exceptional customer service. It plays a key role in ensuring our people feel valued and remain motivated to deliver. In addition to our Great Service Awards, we also launched our Head Office Employee of the Month award, which rewards the efforts of those who have excelled in providing outstanding service to customers, colleagues or the business.

We have a longstanding reputation for looking after the welfare of our people. The Your Wellbeing website for our employees has proved extremely popular since its launch. More than 10,500 pledges were made by employees keen to enhance their wellbeing or take steps towards a healthier lifestyle. In response to requests from female employees we produced an online video about coping with the menopause. A new tool on maintaining energy levels is also planned.

Plan A rewards We want to encourage employees to lead a greener lifestyle and this year nearly 38,000 energy meters were distributed to help employees reduce energy at home.

↑
Keeping up to date We issue a bi-monthly employee magazine and this year we launched an interactive Plan A focused digital magazine. We also started an in-store radio programme 'On Air', so colleagues can tune in and catch the latest on our innovations in Food, Clothing and Home.

Rewarding our employees

26,000
employees participating in Sharesave – our employee share plan

13,500
signed up for the 10/11 Sharesave

10%
more participants than last year

Employee communications

This year we set out our new plans for the business – so it is more important than ever to communicate clearly with employees across the business, maintaining an open two way dialogue.

Our employee portal is updated on a daily basis, with the latest news from the business and the wider retail sector. We supplement this with quarterly results broadcasts, providing employees across M&S with an update of our financial performance.

Our Business Involvement Group (BIG) comprises 3,500 elected staff representatives from across the Company. They represent the views of all colleagues on employment matters and are consulted on a regular basis.

Employee engagement

Our annual employee 'Your Say' survey is an important way for us to understand how our employees feel about M&S. This year participation increased for the third year running to 95%. Our positivity score has increased to 76% and our engagement score, which is the average percentage of five key questions which measure engagement, has increased to 75%.

In July we introduced The BIG Idea, a quarterly initiative in which we pose a question or set a challenge to our employees on a specific area of our business. Our first three questions produced a total of 5,500 responses, the best of which were profiled in our employee magazine.

Getting involved

This year we gave ourselves 100 days to raise £1m, with each store selecting its own charity to support. Once again, employees exceeded this target and donated over £1m to local charities. Our Charity Volunteer Day allows every employee a day's paid leave to help an organisation of their choice and 1,900 days were taken during the year.

Our Plan A Volunteer Awards recognise and reward colleagues who bring something extra to their communities or our business. This year 15 awards were given for raising funds, volunteering time or skills, supporting the Marks & Start programme or championing our Plan A activities. The scheme is being extended to honour achievements in health and wellbeing and reducing energy consumption.

Looking ahead

We will continue to invest in our people; building on the foundations we have already established and identifying and developing talent for the future.

→
Plan A Volunteer Awards In September we hosted the 11th annual Plan A Volunteer Awards to celebrate the remarkable achievements of our people in their local communities. Winners this year included our Glasgow Argyle Street store, voted best Marks & Start location, and Patricia Cook from our Harrogate store, who was named Best Individual Fundraiser.

↓
Half a century of service Jenny Bradley from our Bury St Edmunds store became the first M&S employee to achieve 50 years of service. Presented with a cheque and a gold badge to mark her achievement, Jenny and her husband celebrated with colleagues and management at our Long Service Awards held at Head Office.

Financial review

“We have ambitious growth plans, but our expansion will be matched with close attention to improved efficiency.”

Alan Stewart Chief Finance Officer

Marks & Spencer has delivered a good set of results this year, with sales up 4.2% despite challenging trading conditions. Underlying profit before tax was £714.3m, 12.9%* ahead of last year, with underlying earnings per share at 34.8p, 16.0%* up on last year. This performance reflects the good work of our teams across the business, as we continued to build momentum in both Food and General Merchandise, as well as our growing International business.

We have a clear plan to build on this success, as set out in detail by Marc Bolland on page 4. Over the next three years our aim is to grow the business to revenues of £11.5bn to £12.5bn. By 2013/14, our focus on the UK will deliver an additional £1.0bn to £1.5bn in sales; we will become a leading multi-channel retailer growing sales by £300m to £500m; and we will increase International sales by £300m and £500m.

To deliver our plan we must invest in the business. We plan to increase our capital investment by some £300m per annum over the next three years, giving a total additional investment of £850m to £900m over this period.

The majority (£600m) of the additional capital expenditure will be invested in our UK business – improving our stores, systems and operations. The remainder will be invested in building our multi-channel capabilities and supporting our international growth ambitions. We are confident that this investment will deliver benefits and are targeting an internal rate of return of between 12% and 15%. We also intend to improve our return on capital employed over time.

All of the additional expenditure required to deliver our plan is funded through our existing cash flows, supporting our commitment to maintaining an investment grade credit rating.

Two years ago we launched a programme to restructure the M&S supply chain – implementing new information systems and improving our operational execution. We are now accelerating this programme to deliver bigger, better benefits. This year we made significant progress, increasing our original cost savings target from £250m to £300m and bringing forward our delivery date to 2015.

As we grow we remain focused on building an efficient business – with prudent operating cost management. This is not simply about cost cutting. We want to challenge the business to think differently and find new, more efficient ways of doing things.

By reducing our dependency on full service vendor suppliers we are gaining greater control of our supply chain. By 2015 we aim to have a supply base split of 35% full service vendor suppliers and 65% direct.

These actions will deliver a 5% improvement in Food availability by 2013/14 and a 9% improvement in Clothing and Home by 2015.

We have a strong balance sheet, with net debt down again this year to £1.9bn. This is of course underpinned by a strong property portfolio – an important asset for the business. With the pension funding now agreed and in place, we are in a strong financial position.

Looking ahead

We remain cautious about the year ahead. However, our business is in good shape and we have a clear plan for the future. We will invest in our business to deliver our plan, creating an efficient platform from which to grow.

* The underlying profit measures are consistent with how the business is measured internally.

Summary of results

	2010/11 £m (52 wks)	2009/10 £m (53 wks)	2009/10 £m (52 wks)	change % (52 wks)
Group revenue	9,740.3	9,536.6	9,347.6	4.2%
UK	8,733.0	8,567.9	8,398.2	4.0%
International	1,007.3	968.7	949.4	6.1%
Underlying operating profit	824.9	843.9	779.3	5.9%
UK	677.9	701.2	644.0	5.3%
International	147.0	142.7	135.3	8.6%
Underlying profit before tax	714.3	694.6	632.5	12.9%
Non-underlying profit items	66.3	8.1	8.1	
Profit before tax	780.6	702.7	640.6	21.9%
Underlying basic EPS	34.8p	33.0p	30.0p	16.0%
Basic EPS	38.8p	33.5p	30.5p	27.2%
Dividend per share (declared)	17.0p	15.0p	15.0p	13.3%

The comparative period was a 53 week reporting period. In order to make a comparison to last year, all comparative numbers in the Financial review are stated on a 52 week basis unless specified otherwise. Last year's 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

Group revenues were up 4.2% driven by growth in like-for-like sales in the UK and a good performance in our International business. Revenue growth by area, as reported by period was:

Total revenue %	Q1	Q2	Q3*	Q4*	FY
UK					
Clothing	7.4	7.8	4.7	–3.0	4.2
Home	4.1	9.3	2.7	–6.2	1.6
General Merchandise	7.0	8.0	4.4	–3.4	3.9
Food	2.9	5.2	3.5	4.9	4.1
Total UK	4.8	6.5	4.0	1.0	4.0
International	0.9	6.2	4.5	12.6	6.1
Total Group	4.4	6.5	4.0	2.3	4.2

Like-for-like revenue %	Q1	Q2	Q3	Q4	FY
UK					
General Merchandise	6.0	7.0	3.8	–3.9	3.2
Food	1.5	3.7	1.8	3.4	2.6
Total UK	3.6	5.3	2.8	0.1	2.9

UK revenues were up 4.0% in total with a like-for-like increase of 2.9%, reflecting improvements in our product offer as well as better market conditions in the first half of the year. We added c.1.8% of space, c.1.5% in General Merchandise and c.2.0% in Food, on a weighted average basis.

International revenues were up 6.1%, or 7.9% on constant currency basis. The majority of our owned territories delivered good growth, with Czech Republic, India and China particularly strong. Trading conditions continue to be difficult in the Republic of Ireland and Greece. Our franchise business continued to perform well, with territories including Russia and the Far East growing strongly, and the Middle East returning to growth.

Operating profit

Underlying operating profit was £824.9m, up 5.9%.

In the UK, underlying operating profit was up 5.3% at £677.9m. Gross margin was level at 41.2%. General Merchandise gross margin was down c.40 basis points at 52.1% as a result of increased markdowns, commodity price inflation and adverse currency pressures which more than offset the benefits of better sourcing. Food gross margin was up c.20 basis points at 30.8% as a result of better management of promotions and waste helping to mitigate the commodity price increases and the annualisation of last year's price investment.

Underlying UK operating costs were up 3.5% to £2,951.3m. A breakdown of the costs is shown below:

	52 weeks ended 2 Apr 11 £m	52 weeks ended 27 Mar 10 £m	% inc
Retail staffing	877.6	858.4	+2.2
Retail occupancy	1,011.8	972.7	+4.0
Distribution	393.5	394.4	–0.2
Marketing and related	142.9	122.9	+16.3
Support	525.5	501.8	+4.7
Total	2,951.3	2,850.2	+3.5

* Before adjusting for the timing of the Christmas sales.

Financial review

continued

Retail staffing costs were well managed despite increases in selling space and volumes and the annual pay review. Increased occupancy costs reflect growth in selling space as well as the impact of rent reviews. Distribution costs were very well managed despite volume increases and inflationary pressure, as we continued to see the benefits of initiatives to improve supply chain efficiency. The growth in marketing costs reflects the increase in the number of advertising campaigns in both General Merchandise and Food. The increase in support costs is largely due to additional depreciation partly offset by a lower bonus payment.

The underlying UK operating profit includes a contribution of £35.2m (last year £30.4m) from the Group's continuing economic interest in M&S Money.

International underlying operating profit was up 8.6% at £147.0m (last year £135.3m). Owned store operating profits were £54.7m, down 7.4%, reflecting the economic pressures in Greece and the Republic of Ireland as well as continued investment in stores in India and China. Franchise operating profits were up 21.1% to £92.3m due to continuing strong sales performance.

Non-underlying profit items

	52 weeks ended 2 Apr 11 £m	52 weeks ended 27 Mar 10 £m
Profit on property disposals	2.9	8.1
One-off pension credit	10.7	–
Impairment of investment property	(6.3)	–
Fair value movement on financial instrument	54.3	–
Recognition of embedded derivative	20.3	–
Strategic programme costs	(15.6)	–
	66.3	8.1

Profit on property disposals was £2.9m (last year £8.1m). This mainly relates to the sale of a freehold property in Luton.

The one-off pension credit of £10.7m is due to changes in the Republic of Ireland pension scheme capping employees' future annual increases in pensionable pay to 4%.

The value of an investment property has been impaired by £6.3m to reflect its recoverable value, in line with its current market value.

The liability for the put option over the non-controlling interest in the Czech Group is carried at fair value and has been revalued in line with the latest business plan. The resulting non-cash credit of £54.3m has been recognised within finance costs.

An embedded derivative of £20.3m has been recognised that is contained within a warehouse lease in which rent increases are based on inflation, but within a fixed range. Under IAS 39, this requires separate recognition.

As a result of the strategy announced in November, over the next three years an estimated c.£50m of costs will be incurred which are not part of the normal operating costs of the business. £15.6m relating to the write-off of technology store fit-out and the cost of implementing the strategy has been incurred in 2010/11, with the remainder of the costs to come over the next two years.

Net finance costs

	52 weeks ended 2 Apr 11 £m	52 weeks ended 27 Mar 10 £m
Interest payable	(140.6)	(133.7)
Interest income	4.7	2.1
Net interest payable	(135.9)	(131.6)
Fees payable	(8.5)	(13.5)
Pension finance income (net)	37.6	10.8
Unwinding of discounts on financial instruments	(3.8)	(12.5)
Underlying finance costs	(110.6)	(146.8)
Fair value gain on financial instrument	54.3	–
Net finance costs	(56.3)	(146.8)

Net interest payable was up 3.3% at £135.9m reflecting an increase in the Group's average cost of funding to 6.4% (last year 5.9%), offset by a reduction in average net debt over the year. Underlying net finance costs were down £36.2m after an increase in pension finance income to £37.6m (last year £10.8m). The non-cash fair value gain on financial instruments of £54.3m represents a change in the valuation of the put option over the non-controlling interest in our Czech business.

Taxation

The full year effective tax rate on underlying profit before tax is 25.1% (last year 25.6%) reflecting the benefit of recently announced changes to the corporation tax rate.

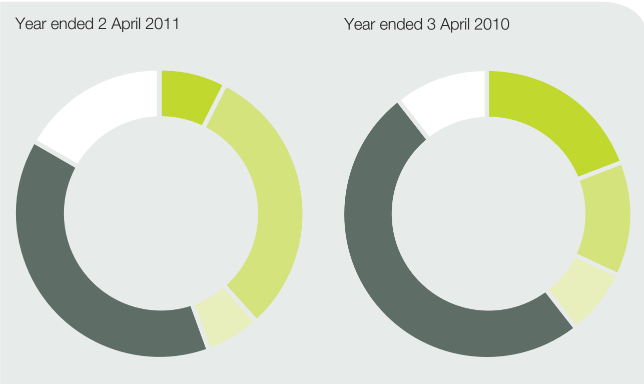
Underlying earnings per share

Underlying earnings per share increased by 16.0% to 34.8p per share. The weighted average number of shares in issue during the period was 1,577.1m (last year 1,572.2m).

Dividend

The Board is recommending a final dividend of 10.8p per share, up 13.7% on last year's final dividend. This will result in a total dividend of 17.0p, an increase of 13.3%. This reflects the Board's commitment to a progressive dividend policy broadly twice covered by earnings.

Capital expenditure

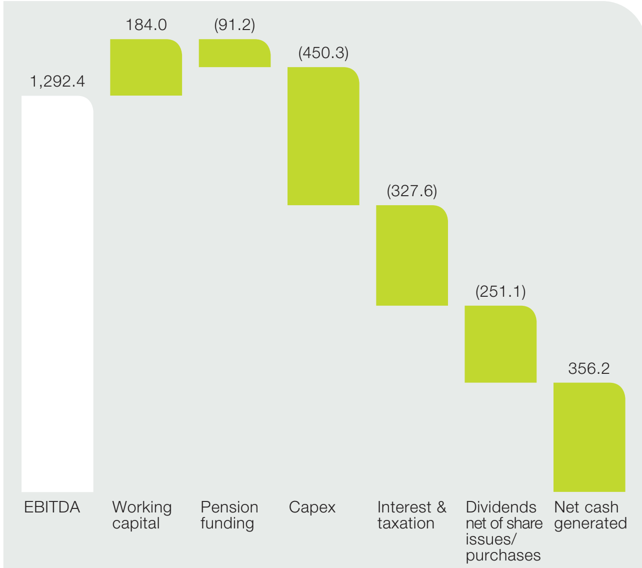


	2 Apr 11 £m	Year ended 3 Apr 10 £m
Store modernisation programme	38	75
New stores	151	50
International	31	29
Supply chain and technology	191	194
Maintenance	81	4
Total capital expenditure	492	389

Group capital expenditure for the year was £491.5m. We continued to invest in our supply chain and technology in line with our plan to build an infrastructure fit to support the future growth of the business.

We added c.1.8% of trading space in the UK, on a weighted average basis, trading from 15.6m sq ft at the end of March 2011. We opened 20 stores during the year, including 17 Simply Foods. In our International business we added c.15% of space, trading from 4.2m sq ft. We opened 49 new stores and closed 15.

Cash flow



Cash flow and net debt

	2 Apr 11 £m	Year ended 3 Apr 10 £m
Underlying EBITDA	1,292.4	1,271.8
Working capital	184.0	97.5
Pension funding	(91.2)	(19.6)
Capex and disposals	(450.3)	(414.0)
Interest and taxation	(327.6)	(281.4)
Dividends and share issues/purchases	(251.1)	(242.6)
Net cash flow	356.2	411.7
Opening net debt	(2,068.4)	(2,490.8)
Exchange and other non-cash movements	(188.7)	10.7
Closing net debt	(1,900.9)	(2,068.4)

The Group reported a net cash inflow of £356.2m (last year £411.7m). This inflow reflects the growth in underlying EBITDA and better working capital management, partly offset by increased cash contributions to the pension fund in line with the funding plan announced in May 2010.

Capital expenditure, net of disposals, was £450.3m (last year £414.0m) reflecting further investment in our supply chain and IT as well as new space growth. Exchange and other non-cash movements of £188.7m includes £113.0m in relation to the transfer of the US$ hedge contracts to the pension fund, as part of the funding plan, and the recognition of the £71.9m Partnership liability to the pension fund which was triggered on the approval of the interim dividend.

Net debt was £1,900.9m, an improvement of £167.5m on last year end.

Pensions

At 2 April 2011 the IAS 19 net retirement benefit surplus was £168.5m (3 April 2010 deficit of £366.5m). The market value of scheme assets increased by £449.5m, partly due to assets contributed as part of this year's funding plan as well as improved asset performance. In addition, the present value of the scheme liabilities have fallen due to the change from RPI to CPI for deferred members leading to a reduction in liabilities of c.£170m.

Chairman's overview

“Trust is built up by doing the right things the right way.”

Robert Swannell Chairman

One of the special attributes of M&S is the level of trust it has established on the high street. Trust is built up by doing the right things the right way. Good governance is just that and at M&S we have focused on ensuring it is meaningful, relevant and underpins our decision-making.

At M&S, we believe that effective governance is realised through leadership and collaboration. The work of the Board should complement, enhance and support the work of the Executive.

Working together, we conduct robust interrogation of plans and actions, ensuring high quality decision-making in all areas of strategy, performance, responsibility and accountability. My role as Chairman is at the heart of ensuring these actions are sustained and harnessed and can drive a culture of continuous improvement in standards and performance across our business.

We welcomed the publication in June 2010 of the UK Corporate Governance Code and have used both the 2008 and 2010 Governance Codes as the standard against which we have measured ourselves in 2010/11. The two significant amendments to the 2008 Code: the annual re-election of directors and the external evaluation of the Board at least every three years, will both be achieved this year. With the exception of Louise Patten, all of the Board are seeking election at the 2011 AGM, marking a departure from the previous one-third of directors seeking election on a rotation basis. We have also completed the Company's first fully independent Board evaluation. This was conducted in a spirit of openness and collaboration and supported by the whole Board. More details of this can be found on page 44.

We are now embarking on a new chapter in the development of the Board and the enhancement of corporate governance. My job is to ensure that your Board is greater than the sum of its parts – a unified Board with non-executives acting as 'critical friends' to Chief Executive Marc Bolland and his Executive team running the business, ensuring we have a Board that:

- supports the Executive team to formulate and execute the strategy;
- demonstrates independence, knowledge and experience to bring fresh perspectives and to hold management to account;
- seeks full information to form views, question management and take strategic decisions;
- is diverse and while acknowledging the recommendations on diversity, ensures that we have the right balance of skills, experience and background; and
- acts responsibly to make sure we meet our accountabilities to shareholders and wider stakeholders.

Board of directors

Who's who on our Board

Robert Swannell leads the Board as Chairman and Marc Bolland leads the business as Chief Executive. Sir David Michels is Deputy Chairman and Senior Independent Director. The Chairmen of the Nomination & Governance, Audit and Remuneration Committees are Robert Swannell, Jeremy Darroch and Steven Holliday respectively. All Board members, and brief biographies, are given below.

1

2

3

4

5

6


1 Robert Swannell Chairman
★♦ (Chairman)
Appointed Chairman in January 2011. Robert joined Marks & Spencer as a non-executive director in October 2010. He was appointed Chairman of the Nomination & Governance Committee in January 2011. Robert is a non-executive director of HMV Group plc. He was, until September 2010, Senior Independent Director of The British Land Company plc and of 3i Group plc. He spent over 30 years in investment banking with Schroders/Citigroup and was formerly Vice-Chairman of Citi Europe and Co-Chairman of Citi's European Investment Bank. He is a member of the Takeover Appeal Board.

2 Marc Bolland
Chief Executive Officer ♦
Appointed in May 2010. Marc joined Marks & Spencer from Morrison Supermarkets plc, where he had been Chief Executive since 2006. Prior to this, Marc worked at Heineken NV for 20 years in a variety of management roles, which included responsibility for operations and business development in the US, France, Italy, Spain, the Caribbean and Latin America. He went on to become an Executive Board Member and Chief Operating Officer. He is a non-executive director of Manpower Inc.

3 Alan Stewart Chief Finance Officer
Appointed in October 2010. Alan joined Marks & Spencer from AWAS, an aircraft leasing company, where he was Chief Financial Officer. Alan worked for HSBC Investment Bank for ten years before joining Thomas Cook in 1996, where he held a number of senior roles, including Chief Executive of Thomas Cook UK, before joining WH Smith plc in 2005 as Group Finance Director. Alan was previously a non-executive director of Games Workshop Group plc.

4 Steven Sharp Executive Director, Marketing
Appointed in November 2005. 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 has previously been Marketing Director at Asda, the Burton Group, Booker plc and Arcadia Group plc.

5 Kate Bostock Executive Director, General Merchandise
Appointed in March 2008. 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 in September 2009. 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.

Laura Wade-Gery (Photo not shown)
Executive Director, Multi-channel E-commerce
Laura joins the Board on 4 July 2011. She was previously at Tesco plc where she held a variety of senior roles from 1997. Laura brings considerable retail and consumer experience, including significant e-commerce knowledge as Chief Executive Officer of Tesco.com and Tesco Direct. Prior to joining Tesco Laura held various roles at Gemini Consulting and Kleinwort Benson. She has been a non-executive director of Trinity Mirror plc since 2006.

Progress has begun on shaping the Board for the future, ensuring diversity is at its heart. There has been much debate generally about diversity in the boardroom, specifically relating to gender and the representation of women in the boardrooms of FTSE companies. At M&S, our female directors already account for nearly 30% of the Board and we would expect to at least maintain this level over the next two years. Below Board level, women account for 32% of senior management. However, we do look at diversity more broadly as we feel it is important to get the right balance of independence, skills, knowledge and experience.

During the year we further improved our governance, completing the separation of the roles of Chief Executive and Chairman, with the appointment of Marc Bolland in May 2010 and me as Chairman in January 2011. This period of transition was managed extremely effectively by Sir David Michels, as Senior Independent Director, and the Nominations Committee he led. Thanks must also go to Sir Stuart Rose for an immaculate handover as Chairman.

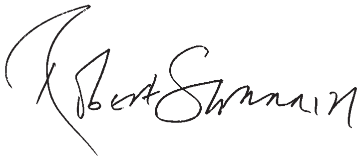
In October 2010 the Board appointed Alan Stewart as Chief Finance Officer. In February 2011 we announced the appointment of Laura Wade-Gery as Executive Director, Multi-channel E-commerce, who will join the Board on 4 July 2011. More recently we announced that after nearly two three-year terms, Louise Patten has decided not to seek re-election this year and will step down from the Board following the AGM on 13 July 2011. Sir David Michels has also decided to step down from the Board, following the end of his second three year-term, in February 2012. He will remain as Deputy Chairman and Senior Independent Director until then.

Safeguarding our development pipeline of skilled leaders has been a key area of focus for the Board and the Nomination & Governance Committee this year, in line with our action plan for 2010/11. Not only have we seen a reshaping of the Board itself, but we have also conducted an extensive programme to support our future succession plans.

Hand-in-hand with developing leaders within the business goes the task of ensuring our reward systems are appropriate and stretching. Our Remuneration Committee has overseen a redesign of our senior executive framework this year and considerable effort has gone into the scheme proposal and engaging with major shareholders and investor representative bodies.

Monitoring the level of risk and the governance to support risk management has been another key objective and involved the support of the Audit Committee. The outputs of this are visited in greater detail on page 46. It is important that we build on, and improve our understanding of risks and our appetite and tolerance of these in future.

We have had a busy year, taking a number of significant decisions and actions, some of which are captured on the following pages.



Robert Swannell Chairman

Group Secretary

7 

8 

9 

10 

11 

12 

13 

7 Sir David Michels Deputy Chairman
★●■♦
Appointed in March 2006. David is Deputy Chairman and Senior Independent Director. He is Chairman of London & Capital plc, an independent wealth management firm, and Michels & Taylor LLP, a hotel asset management company. David is also Deputy Chairman of easyJet plc and a non-executive director of Strategic Hotels & Resorts and Jumeirah Group, Dubai. He was previously Senior Independent Director of The British Land Company plc, a non-executive director of Arcadia Group and Chief Executive of Hilton Group plc.

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

9 Martha Lane Fox Non-Executive Director ★●■♦
Appointed in June 2007. Martha is the UK's Digital Champion, Chairman of Race Online 2012 and a non-executive director of Channel 4 Television. She is founder and Chairman of Lucky Voice Limited 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. Steve is Chairman of the Remuneration Committee. He is Group CEO of National Grid plc, having previously been Group Director of UK and Europe and responsible for the UK Electricity and Gas businesses. Steve is Chairman of the UK Business Council for Sustainable Energy. Prior to joining National Grid he was an Executive Director of British Borneo Oil and Gas. Previously, Steve held numerous senior positions with the Exxon Group.

11 Louise Patten Non-Executive Director ★●■♦
Appointed in February 2006. Louise is a senior adviser to Bain & Co and a non-executive director of UK Asset Resolution Limited. 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. Jan is Chairman of Rio Tinto plc. He was formerly Chairman of British American Tobacco plc and a non-executive director of Lloyds Banking Group. 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 Corporate Governance

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

On 5 May 2011 we announced that Louise Patten has decided not to seek re-election this year and will step down from the Board following the AGM on 13 July 2011.

Sir David Michels has also decided to step down from the Board following the end of his second three-year term in February 2012.

Leadership

Doing the right thing the right way

What do we mean by doing the right thing?

To ensure the continued success of M&S, we have to make the right decisions across the business, in the right way, with the right checks and balances.

It is not just what we do but how we do it, by:

- understanding and ensuring our Code of Ethics and Behaviours guides us in our everyday activities;
- behaving considerately to our colleagues, ensuring we and they feel valued, motivated and rewarded;
- treating our customers, suppliers and local communities fairly and with respect; and
- respecting the environment, involving all of our stakeholders through Plan A.

At the heart of it all is making sure the people that 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.

What guides our behaviours?

At M&S we believe good governance produces good business and performance.

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 demonstrates leadership in these areas, regularly discussing and reviewing:

- Our corporate values of Quality, Value, Service, Innovation and Trust;
- Plan A and sustainability, our ambitious environmental, ethical and social commitments; and
- Our Code of Ethics and Behaviours: our guide to the values, behaviours and ways of working we uphold.

The Board is also the flag-bearer for our business behaviours and aspirations; to be not just good, but great at what it does. The significant changes in Board composition this year provide the perfect opportunity to renew our contract with shareholders and, as a group, we are committed to openness, transparency and mutual trust.

Our Governance structure

Corporate Governance

1 – Group Board (Robert Swannell) relies on management to run the business and on our people to provide our customers with great service every time they shop with us. To safeguard this, the Board monitors what management are doing, holding them accountable for performance against our targets and standards, probing and challenging their thinking to make sure that 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 are 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.

2 – Nomination & Governance Committee (Robert Swannell) recommends Board appointments, reviews business succession plans and makes sure our governance is fit for purpose.

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

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

The Committee activity reports are given on pages 50, 51 and 52.

5 – Governance Group (Amanda Mellor) supports colleagues by providing governance support and oversight that is meaningful, relevant and focused on ensuring the business is 'doing the right things the right way' both in the UK and overseas. The Governance Group engages across the business and comprises legal, audit and risk, insurance, archive, pensions, BIG (employee representative) and secretariat, reporting on its activities regularly to the Board in the Group Secretary's report.

Operational Governance

6 – Executive Board (Marc Bolland) is accountable for running the business, making sure we are doing the right thing day-to-day and delivering the Group's strategy. It allocates capital and controls all non-property investments with a risk of material impact on financial results, brand or strategy. It keeps the Board regularly informed about the business and how we work with our different stakeholders. Its work is supported by a number of operational committees and functions.

7 – Management Committee (Marc Bolland) inputs into the Group's strategic plan. It monitors the development of the Group's workstreams against its three-year plan and cascades relevant information through the business.

8 – Property Board (Clem Constantine) ensures capital expenditure is allocated to the Group's UK and International property portfolio. It approves all UK and International property investments, projects and programmes.

9 – Customer Insight Unit (Steve Bond) influences decision-making by tracking marketplace trends, our customer barometer and customer views.

10 – How We Do Business Committee (Marc Bolland) 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 most sustainable major retailer by 2015.

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

12 – 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.

13 – 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.

These Committees report to the Board on their activities at least annually.

What is our approach to governance?

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

Although the required regulatory and governance assurances are provided throughout this report, we have sought to avoid a box-ticking approach. Over the following pages we focus on the practical application of our governance, showing how it works to support and protect the M&S business. You will find our approach to Leadership on page 42, Effectiveness on 44, Accountability on 45, Engagement and Relations with Shareholders on page 48, and the governance of our pension scheme on page 49. Our Governance Framework sets out what we expect from our directors and the structures that support our governance. This framework profiles the directors' individual accountabilities as well as detailing terms of reference for the Board, Committees and key operational functions. It can be found within the Governance section of our corporate website marksandspencer.com/thecompany along with our full account of how we have complied with the UK Corporate Governance Code.

How did we comply with the Governance Code?

The governance rules that apply to UK companies listed on the London Stock Exchange are found in the Combined Code on Corporate Governance 2008 ('2008 Code'). The new UK Corporate Governance Code was adopted in June 2010.

Throughout the year ended 2 April 2011, the Company complied with all provisions of the 2008 Code with the exception that for part of the year, the role of Chairman and Chief Executive was exercised by the same individual, Sir Stuart Rose. Stuart stepped down as Executive Chairman on 31 July 2010 but remained as Chairman until the appointment of Robert Swannell as Non-Executive Chairman on 4 January 2011. We recognise that Stuart's role as Chairman and Chief Executive was out of line with best practice as were his independence criteria on appointment as Chairman. We understand the concerns that shareholders had, but maintain that robust governance structures were in place, while benefiting from retaining Stuart at the helm. With the separation of the roles of Chairman and Chief Executive we have now returned to best practice.

Leadership

Progress

Our Board

Who's on our Board?

Name of director	Board meetings A	Board meetings B
Chairman		
Sir Stuart Rose (resigned 4 Jan 2011)	7	7
Robert Swannell (appointed 4 Jan 2011) (1)	6	6
Deputy Chairman		
Sir David Michels (2)	10	8
Chief Executive Officer		
Marc Bolland (appointed 1 May 2010)	10	10
Executive directors		
Kate Bostock (3)	10	8
John Dixon	10	10
Ian Dyson (resigned 14 July 2010)	3	3
Steven Sharp (4)	10	9
Alan Stewart (appointed 28 Oct 2010)	5	5
Non-executive directors		
Jeremy Darroch (5)	10	9
Martha Lane Fox	10	10
Steven Holliday (6)	10	9
Louise Patten	10	10
Jan du Plessis (7)	10	8

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

1) Robert Swannell joined the Board as a non-executive director on 4 October 2010, prior to his appointment as Chairman on 4 January 2011.
2) Sir David Michels – unable to attend the meetings on 8 December 2010 and 16 March 2011 due to overseas business commitments.
3) Kate Bostock – unable to attend the meetings on 24 May 2010 and 16 March 2011 due to illness.
4) Steven Sharp – unable to attend the meeting on 3–4 February 2011 due to illness.
5) Jeremy Darroch – unable to attend the meeting on 8 November 2010 due to business commitments with BSkyB.
6) Steven Holliday – unable to attend the meeting on 19 January 2011 due to illness.
7) Jan du Plessis – unable to attend the meeting on 24 May 2010 due to business commitments with Rio Tinto and on 3–4 February due to personal commitments.

What has our Board done during the year?

It is our intention to be immersed in key decisions and actions across the business, reinforcing our belief that good governance is a valued consideration in all decision-making processes. We see it as central to running a successful business and to everything the Board does.

Our action plan for 2010/11 was largely achieved. We have seen significant progress in our aim to develop our business leaders and we have ensured our reward systems are appropriate and stretching. We have been mindful of monitoring risk while balancing the business' needs and we are on track with our plans to relocate the M&S Company Archive to its new home in Leeds. An overview of the Board's focus during the year is set out on the opposite page, while here we highlight a number of the key activities in greater depth.

Our action plan for 2011/12, following the Board effectivness review is set out on page 44.

Improving processes

The Board's agendas focus on our themes of continuous improvement, strong leadership, a clear strategy, checks and balances, a trusted brand and strong relationships with shareholders, employees and customers.

While we recognise the importance of compliance, we avoid spending unnecessary time on box-ticking and gold-plating legislation, choosing instead to focus on the long-term plans for our business as well as day-to-day operations.

To support these aims we have reviewed the packs sent to Board members to ensure clarity of communication and we have updated the Board calendar to free up time for valuable debate and long-term strategic discussion. In addition, we will allocate time to gather ad hoc feedback and discuss future agendas so that we can react effectively to emerging issues and really plan ahead.

The Board was engaged in signing off some significant strategic developments during the year, including our return to continental Europe with the opening of a store in Paris and the launch of our first international website in France. It also approved significant IT and supply chain system modernisation projects and reviewed a wide range of customer-facing initiatives.

Nurturing talent

Developing leadership and future talent and securing strong succession plans for the business has been a key theme for the Board. A significant amount of Board time during the year was taken up with induction of the new Chairman, new Chief Executive, and new Chief Finance Officer, and the programmes designed were all thoroughly comprehensive. Further detail on our induction process can be found on page 44. We also appointed an Executive Director for Multi-channel E-commerce. These appointments herald the beginning of a new chapter for the Board and provide us with an opportunity to review and redefine the way we work together.

Having already identified our Top 100 key managers within our business, this year the Board supported a programme to extend the scope of our Lead to Succeed initiative to the Top 500 managers at M&S. We will continue to ensure their development and potential is supported; this should enable us to secure a source of talented leaders for the future. This work also resulted in the recruitment of the first four people from London Business School onto our MBA programme.

We have also ensured our reward framework is fit for purpose, reflecting our resolve to recognise the skills and talents represented across our teams as well as setting stretching goals and objectives that feed into our wider ambitions for the business. Our Remuneration Committee led this important piece of work; for more details see page 52.

Feedback is encouraged across our business and all employees have a chance to share their views and insights via a host of engagement initiatives. These include our annual Your Say survey, Business Involvement Groups, director presentations, Annual Conference and informal director roundtable discussions.

Driving strategy

The Executive team worked with our Top 100 management team to perform an in-depth review of the business, developing our strategy from the bottom up. This culminated in the strategy update to the City with the half year results in November 2010. The strategy was cascaded to all employees, following our first Annual Business Conference attended by all store managers and the Top 100.

Ensuring the Board is regularly engaged at an earlier stage of strategic planning is an ongoing commitment and strategy discussions were central to the two Board away-day events held during the year. The first, in October, focused on the strategic goals for the business that formed the update to the City in November 2010. In February 2011 the Board came together again to review the three-year plan and progress with the strategic initiatives to deliver the goals outlined in November.

Monitoring risk

Protecting the business from operational or reputational damage is an essential part of the Board's role. In line with our action plan, we have assessed the effectiveness of our reporting controls and ensured our Group Risk Profile reflects the business' strategic objectives. We have reviewed our appetite for risk as result of the strategic plan and will continue to challenge and broaden our understanding of this in future.

We have carried out a full review of internal controls, updated our Code of Ethics and Behaviours and our Data Protection policy, and prepared ourselves for the new Bribery Act. The Audit Committee has supported much of the debate in these areas.

We have also reviewed previously approved investment decisions, established a Plan A External Advisory Board comprising experts from academia, industry and leading NGOs and reviewed our health and safety and business continuity planning.

Board activities – Driving continuous improvement in 2010/11

Leadership and employees

- Reinforced and developed Board through new appointments: Independent Chairman, Chief Finance Officer, Executive Director Multi-channel E-commerce
- Focused on Top 100 managers, supporting succession planning
- Extended programme to Top 500 and hosted first Business Conference
- Redesigned senior executive reward framework through Remuneration Committee
- Engaged with employees via: annual Your Say survey; Business Involvement Groups; director presentations; Annual Conference; and informal director roundtable discussions

Strategy

- Conducted in-depth, top down business review with input from Top 100 management team to develop future strategy
- Held two Board away-days to support new strategy and review immediate and three-year plans
- Approved key decisions including: development of new M&S multi-channel platform; return to continental Europe with Paris store and international website
- Ongoing assessment of key strategic projects, including IT and systems

Checks and balances

- Assessed effectiveness of financial reporting controls, internal control and assurance processes
- Ensured Group Risk Profile reflects business' appetite for strategic growth
- Updated Code of Ethics and Behaviours, Data Protection policy, Governance Framework and reviewed preparedness for the new Bribery Act
- Reviewed: previously approved investment decisions (particularly around IT and supply chain initiatives); creation of Plan A External Advisory Board, health and safety; and business continuity planning

Trusted brand

- Informed debate around 'Only at Your M&S' brand approach across clothing, home and food
- Supported relocation and enhancement of M&S Company Archive, ensuring our rich history and heritage is preserved
- Constant challenge and debate around Plan A aspirations
- Ongoing review of governance structure, with particular focus on developing markets internationally
- Audit Committee received key updates to support the understanding of key risks to reputation, food safety, crisis management and employee morale

Relations with shareholders

- Annual independent investor survey undertaken
- Active engagement with institutional shareholders and investor bodies
- Reached out to lost shareholders by implementing a full lost shareholder search programme
- Consulted with 50,000 shareholders about receiving the Annual Report electronically

Customers

- Received regular boardroom updates on customer and market trends
- Customer feedback received in store and at our Annual General Meeting
- Considered updates from our new Consumer Barometer on behaviour and sentiment
- Secured future funding for M&S Company Archive
- Responded to 35,000 customer communications received via the Chairman's office

Marks & Spencer

Doing the right thing the right way

Governance

Effectiveness

How do we make sure our Board is effective?

Now more than ever, the M&S Board is committed to best practice in its governance activities. In line with this best practice, and reflecting the significant changes to the Board line-up this year, we took the decision to commission our first ever independently-facilitated Board review.

Our aim was to capture open and constructive feedback from Board members that would:

- provide insight into our effectiveness;
- point to actions for improving our performance; and
- establish a benchmark for measuring future progress.

Our Board review was conducted according to the guidance in the UK Corporate Governance Code 2010. All participants were interviewed according to an agenda tailored specifically for our Board. The outputs have already begun to inform our action planning for 2011/12.

Board members were hugely supportive of our aims, embraced our desire to elicit a diversity of views and demonstrated a commitment to achieving exemplary Board performance.

Who carried out the review?

Our review was conducted by Ffion Hague of Independent Board Evaluation, a wholly independent consultant who has no other relationship with M&S.

What was the focus of the Board review?

Structured interviews with Board members took place between January and March 2011 with each participant asked to evaluate the Board, its Committees, the Chairman and individual Board members.

Subjects covered included a general overview as to the 'state' of the Board, how it was operating at the time and how that had changed in recent months. Directors were also asked about shareholder relationships, how the business interacts with shareholders and how those relations might be improved.

Views were sought on the Board's input into strategy discussions, governance and compliance, risk management and succession planning. The Board's own composition was also examined, looking at culture and the relationships with senior management as well as how new members are selected and inducted.

A separate section looked at how the Board could move from 'good' to 'great' and what would be required to drive continuous improvement, including how to access the widest possible reserve of skills, experience and knowledge within our team.

What did we learn?

There was a widespread view that ours is a Board in transition. We identified a high degree of support for the new leadership and the way in which new members were introduced and inducted during the year was felt to have further served to unify the Board.

The Board also expressed a desire to ensure a balance is struck between regulatory compliance and the need to nurture an entrepreneurial spirit within the business.

What will we do with the outputs?

The insights gathered from the Board review have resulted in a clear action plan for the year ahead. The actions address the key areas of succession and people, Board composition, Board debate, risk management and shareholder engagement.

Action plan 2011/12

During the year, the Board plans to:

- create a clear framework around succession planning and support and development for key managers;
- review Board and Committee composition to encourage true diversity of experience and outlook;
- ensure a real focus on the level of debate in the boardroom and understanding of the longer term;
- build on the risk management process to ensure appropriate challenge to and understanding of our risk appetite and tolerance going forward; and
- continue our active engagement with shareholders.

Director induction

On joining M&S, directors receive a tailored induction programme. This includes time with the Group Secretary, each of the Executive Directors, members of the Management Committee and a wide range of senior management from across the business.

Director induction programme

By way of example, Robert Swannell received a comprehensive induction programme covering:

Company structure and strategy: including Group structure: history, strategy, vision, key people, succession plans, Board procedures including Governance Framework and Code of Ethics and Behaviours, Board Committees, calendar, minutes, Board effectiveness reviews and action plans, finances and performance, operating plans, current KPIs and targets, operational overview of all business areas, key relationships including suppliers and major contracts, Group Risk Profile and our approach to risk.

Industry and competitive environment: including customer trends, consumer and regulatory environment including governance and all relevant consumer and industry bodies, CSR environment and sustainability.

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

His programme was supported by one-on-one meetings with management from General Merchandise, Food , Multi-channel, International, Retail, Finance, Property, Plan A, Marketing, Customer Insight Unit, Human Resources, Communications and Investor Relations, Internal Audit and Risk, Pensions, the Company Archive and the Governance Group.

Robert visited a number of our stores with the Retail team and our distribution centre in Bradford with the Logistics team. He also met with key investors and suppliers.

Accountability

We believe that effective risk management is critical to the achievement of our strategic objectives and the long-term sustainable growth of our business.

What is our approach to risk management?

The Board has overall accountability for ensuring that risk is effectively managed across the Group and, on behalf of the Board, the Audit Committee reviews the effectiveness of the Group Risk Process.

Risks are reviewed by all business areas on a half-yearly basis and measured against a defined set of likelihood and impact criteria. This is captured in consistent reporting formats, enabling Internal Audit & Risk to consolidate the risk information and summarise the key risks in the form of the Group Risk Profile. Our Executive Board discusses the Group Risk Profile ahead of it being submitted to Group Board for final approval.

To ensure our risk process drives improvement across the business, the Executive Board monitors ongoing status and progress of key action plans against each risk on a quarterly basis. Furthermore, the discussions on risk have strengthened at Board level with risk being a key consideration in all strategic decision-making.

Key areas of focus

This year we have maintained a simple and practical approach to risk management, while driving key improvements to the process and quality of risk information produced.

Our focus has centred around three key themes:

1. Alignment with the three-year plan

Each business area underwent a robust business planning process earlier in the year, setting out key initiatives required to support the delivery of our overall strategy. As part of this, each area identified their key risks to the achievement of the three-year plan and business objectives, ensuring that we are focusing on the things that really matter. In light of this, new risks relating to the delivery of the new online platform; improvements to our store environment; and engagement with our core clothing customers have been disclosed this year.

2. Clearer risk descriptions

The business areas have been challenged to state where their key areas of concern lie. For example, last year the risks relating to 'economic outlook' and 'product costs' were combined as one. This year they have been captured separately, recognising that different events could impact our sales plan and profitability.

3. Action plans for key risks

Through development of clearer risk descriptions, the business has built more focused action plans to address each risk with defined ownership and timeframes for completion. Action plans against our principal risks have been signed off by the Executive Board and will be monitored and reported on a quarterly basis.

Each of the above initiatives further strengthens our risk process and enables the Board to make informed decisions on strategy with assurance that our risks are being managed.

1 Risk identification

Risks highlighted and documented in a centrally managed Risk Register

2 Risk assessment

3 Risk mitigation

Required actions are agreed and assigned, with target deadlines and quarterly status updates

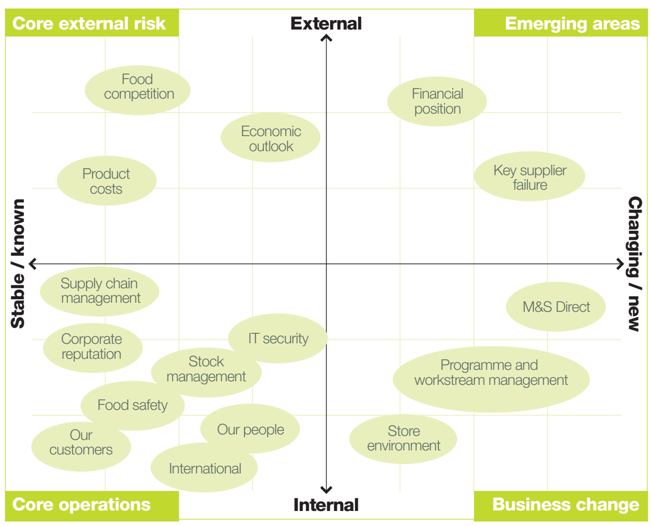
Our principal risks and uncertainties

As with any business, we face risk and uncertainties on a daily basis. It is the effective management of these that places us in a better position to be able to achieve our strategic objectives and to embrace opportunities as they arise.

In order to achieve a holistic view of the risks facing our business, both now and in the future, we have taken into consideration those risks that are:

- external to our business;
- core to our day-to-day operation;
- related to business change activity underway across the Group; and
- those that could emerge in the future.

The 'risk radar' below maps our principal risks against these categories. This tool is also used to facilitate wider Executive and Board level discussions on risk.



Overleaf, further information is provided on our principal risks and the mitigating activities underway to address them. It is recognised that the Group is exposed to a number of risks, wider than those listed. However, a conscious effort has been made to disclose those risks of most concern to the business at this moment in time and those that have been the subject of debate at recent Board or Audit Committee meetings.

Accountability

continued

Risk description	Mitigating activities
Finance Our priorities continue to focus on maintaining a strong financial position that supports continuous improvements to our customer offering across our UK and International operations.	
Economic outlook Uncertain economic conditions impact consumer confidence and our ability to achieve our sales forecast As consumers' disposable incomes come under pressure from increased VAT rates, cuts in public spending and increased fuel prices, trading conditions continue to remain a challenge for our UK business.	– Throughout the year we have continued to review and monitor the effectiveness of our pricing, promotional and marketing strategies across our General Merchandise (GM) and Food businesses, tailoring our consumer offering where appropriate. – Despite pressures on our cost base, we have continued to innovate in order to retain our point of difference and the loyalty of our customer base.
Product costs Increasing product costs may impact the profitability of our business Our GM and Food businesses are having to develop plans to address rising commodity prices, particularly in the cost of oil, food and cotton, as well as general inflationary pressures on our supply base such as labour cost increases in Bangladesh and China.	– Where possible, we are leveraging the scale of our GM business to absorb cost price inflation without passing on significant price increases to customers. – Both the GM and Food businesses are working with suppliers on an ongoing basis to increase efficiencies and to identify opportunities for taking costs out of their supply base to protect margins and profitability, without compromising on quality or diluting the emphasis we place on innovation.
Financial position Deterioration in our financial position limits our flexibility and ability to grow the business In the event that the Group's financial performance does not meet market expectations, our ability to borrow from lenders on our existing terms may be impacted, resulting in increases to the cost of borrowing and insufficient funding to meet our capital requirements and growth plans.	– Group Treasury regularly carries out forecasting of our debt capacity, financial covenants and other rating metrics within current rating bands. – The funding level of our pension scheme is monitored in collaboration with the Trustees on a regular basis, with clear parameters in place that would trigger an intra-valuation debate between the Trustees and the Company. – Regular communication with rating agencies and brokers has continued throughout the year.
Selling channels We have ambitious plans for our UK, International and M&S Direct businesses as part of our commitment to becoming an international multi-channel retailer by 2015.	
Store environment Failure to deliver improvements across our store estate to time, to budget or to the desired quality could negatively impact consumer perception of the M&S brand Customer research has highlighted that some of our stores are difficult to shop and the positioning of our clothing sub-brands is unclear. We have taken this feedback on board and are investing in delivering improvements to strengthen and clarify our brand.	– To ensure that our new store plans meet our customers' needs with minimal disruption to their shopping experience, we plan to introduce a phased roll-out of improvements across our store estate. – Close monitoring of progress against key milestones is underway, with direct reporting lines into the Executive Board.
Food competition Aggressive expansion of our competitors into M&S markets could impact our market share The major supermarkets have outlined significant expansion plans over the next three to five years. This is leading to greater competition for the acquisition of sites and has heightened the need for us to improve accessibility of our stores and differentiate our product offering.	– We have a clear space growth plan in place for 2011/12 and beyond to reduce the drive time to our stores for our customers. – We continue to implement targeted marketing and promotional strategies in response to competitor openings. – To maintain our position as a leading specialist food retailer, our 2011/12 Food strategy will focus on innovation and inspiration, underpinned by our three core values, 'Freshness, Speciality and Convenience'.
M&S Direct A new online platform with flexibility to support future growth is not delivered by the time our contract with Amazon expires In November 2010, we announced our desire to become a leading UK multi-channel retailer and to make our brand more accessible around the world. To achieve this, we are investing in a new online platform that will not only provide a more enhanced shopping experience but also help to accelerate our growth.	– Laura Wade-Gery, our new Executive Director of Multi-channel E-commerce brings with her a wealth of experience in multi-channel retailing. – Our multi-channel growth strategy is underpinned by a clear plan for implementation of the new platform both in the UK and overseas. – We are working closely with our partner Amazon to ensure the quality of our existing online offering is not compromised while we build the new platform.
International Failure to leverage our systems and processes limits growth of our international business Our aim is to increase our international presence and to build a leadership position in priority markets. To deliver this, it is crucial that we adopt an organisation structure that is supported with robust systems and supply chain capability.	– The appointment of Jan Heere as Director of International will drive the achievement of our international growth plans. – The focus on enhancing international systems and processes has continued throughout the year in alignment with the development of our international strategy.

Risk description	Mitigating activities
People and change Our people are fundamental to the long-term success and growth of this business.	
Our people Reduced motivation and retention of key employees impacts our ability to deliver business plans As we go through a period of economic uncertainty as well as a number of internal change initiatives, it is ever more important to ensure that M&S remains a great place to work.	– A monthly briefing is cascaded to our top managers and a quarterly results broadcast is held for all employees to communicate the growth ambitions and underlying plans of the business. – Development of talent for the future remains a key priority. We are rolling out our development programme 'Lead to Succeed' to more of our managers, helping them to realise their full potential. – Alongside the recruitment of a number of new directors across the business, the development of strong succession plans is a key area of focus for the Board.
Programme and workstream management Benefits from our major business programmes and workstreams are not realised Implementation of our major programmes and strategic workstreams is now underway which underpin the achievement of our three-year plan and ambition to become a leading multi-channel international retailer by 2015. Critical to their success will be the achievement of our forecasted benefits.	– Our Strategic Programme Office centrally governs the strategic initiatives across the Group and provides regular reviews and updates on their status, tracking of costs and realisation of benefits to the Executive Board. – All major programmes possess their own governance structures, supported by robust project management discipline.
Brand and reputation Our founding principles of Quality, Value, Service, Innovation and Trust continue to influence how we do business and our reputation for being one of the UK's most trusted brands.	
Corporate reputation External expectations relating to our Plan A, ethical or corporate governance commitments are not adequately managed Our brand continues to be trusted in the marketplace with Plan A being an integral component of the M&S brand. With such a strong brand comes high expectations and the need to consistently deliver quality and value to our wide stakeholder base.	– Our commitment to Plan A and becoming the world's most sustainable major retailer by 2015 continues to be a priority for the Group with one of our key objectives being for all M&S products to have at least one Plan A attribute by 2020. – We have recently launched 'Only at Your M&S' emphasising to customers that they will find exclusive and innovative products that are unique to M&S. – We are ensuring that adequate policies and procedures are in place to meet the requirements of the Bribery Act 2010 which comes into force in July this year.
Our customers Loss of engagement with our core clothing customer As we seek to enhance the M&S brand and make our sub brands more distinctive, it is important that we continue to address our core customers' specific needs.	– To maintain our market-leading position for clothing, we continue to respond to our customers through focus groups, online reviews and our in-house Customer Insight Unit. – Our marketing campaigns continue to be an important way of communicating with our customers, in order to keep the M&S brand fresh and at the forefront of their minds.
Food safety A food safety related incident occurs or is not effectively managed As the leading retailer of fine quality fresh food in the UK, it is paramount that the food products we sell to our customers are safe.	– We have a dedicated team in place responsible for ensuring that all M&S food products are safe for consumption through rigorous controls and processes, with a continuous focus on quality. – We maintain robust governance of the food supply base through our long established supplier audit programme and reporting process.

Day-to-day operation We are a customer-centric business and strive to deliver an efficient and effective operation.

The Group faces a number of operational risks on an ongoing basis, including: **Stock management; Supply chain management; Key supplier failure;** and **IT security**, each of which were disclosed in last year's Annual Report. We recognise that these are important and still subject to regular review, however this year we have sought to focus our disclosure on those that have been assessed as more significant to the Group.

The risks listed do not comprise all those associated with M&S and are not set out in any order of priority. Additional risks and uncertainties not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business.

Further information on the financial risks we face and how they are managed is provided on pages 97 to 100.

Engagement

Relations with shareholders

Robert Swannell, Chairman

We consider ourselves fortunate that many of our institutional investors are willing to make time for open dialogue throughout the year. The introduction of the Stewardship Code in 2010 is also a welcome development to encourage institutional shareholders to engage. We truly believe that continued engagement will build greater understanding of views, opinions and concerns, which is beneficial to all. There will always be a wide diversity of opinion amongst investor groups. However, we believe we all share the same goal: for M&S to be a market leading, sustainable, profitable business.

Since joining the business in October 2010 I have met with many investors and shareholder representatives. Steven Holliday (Remuneration Committee Chairman) and/or Amanda Mellor (Group Secretary) also met with many investors and shareholder representatives as part of the consultation process on the changes to the senior executive remuneration framework. We have listened to investors' comments and these are always then fed back to the Board and its Committees.

Marc Bolland, Alan Stewart and our investor relations team met with representatives from over 221 investment institutions during the year to keep them updated on performance. These ranged from one-on-one meetings to group presentations.

For an independent view from investors, the Board retains the services of Makinson Cowell, the capital markets advisory firm. Makinson Cowell provides the Board with an annual presentation of major investors' views on Company management and performance, based on results of surveys and extensive interviews. This survey also helps to keep our investor relations programme on track.

Amanda Mellor, Group Secretary

Private investors represent more than 95% of the shareholders on our share register so we are mindful of the need to engage with them regularly.

We continue to provide shareholder feedback cards with our Annual Report documents. Responses to these are summarised and passed to the Board and the head of each business area. Our Chairman addresses the top three topics at the AGM. Shareholders can also email the Chairman with their comments, write to us or telephone our helpline.

We actively encourage our private shareholders to become more informed investors. By providing us with their email address we are able to email them when trading updates are added to our website. In line with our Plan A objectives, we were keen to reduce the amount of paper sent to shareholders. In February we mailed shareholders who were receiving the Annual Report or the Annual Review and offered them 10% off their next online purchase if they opted to receive information electronically. We recognise that not all our shareholders are online, so we suggested they receive our smaller M&S 'At a glance' booklet instead which is published with the private investor in mind. We were delighted that investors responded positively to this engagement.

We remained committed to our 'lost shareholder' programme returning further shares and unclaimed dividends to shareholders who had failed to keep their details up to date. This is an industry-wide challenge and M&S has been very much at the forefront in repatriating these holdings. One such case identified £20,000 in dividends and shares that formed part of the estate of a shareholder whom we discovered had died in 1978. Our search agent ProSearch traced his daughter, now living in South Africa. The windfall paid for her wedding and glasses were raised in her father's memory on her big day.

Despite all our efforts, however, there are some instances where we are not able to find the shareholder. If we are confident we have done all we can to find them, and they have been gone from the address we have for them for more than 12 years, their dividends and shares are forfeited and used for good causes. This year the forfeiture has helped fund the relocation of the M&S Company Archive, ensuring the M&S history, along with its valuable record of social history and product innovation and design over the last 126 years is protected for years to come.

What happens at our AGM?

The Notice of Meeting sets out the resolutions being proposed at the Annual General Meeting (13 July 2011 at 2pm). Last year all resolutions were passed with votes ranging from 85.7% to 99.9%.

Our AGM is the best attended of all the FTSE 100 companies, attracting 2,000 people last year and another 250 joining via our live webcast. The meeting begins with a business presentation, followed by a question and answer session led by the Chairman. Voting on the resolutions is then conducted by electronic poll, which gives a democratic result of all shares represented on the day and those lodged before the meeting. The indicative result is screened at the meeting with the final results announced via the London Stock Exchange.

Shareholders who are not able to attend are encouraged to vote online in advance of the meeting at sharevote.co.uk or using the proxy card that we mail to them. In 2010 94% of the proxy votes received were logged electronically through the CREST system.

Information relating to our share capital is detailed on page 68 of the Directors' report.

Corporate website

There is a wealth of information online at marksandspencer.com/the company, including:

- a detailed account of how we have complied with the 2008 and 2010 Governance Codes;
- our full Governance Framework, including Board and Committee Terms of Reference and individual accountabilities;
- our Auditor Engagement Policy for the external auditors;
- our Code of Ethics and Behaviours;
- our Articles of Association;
- Annual Reports and investor presentations; and
- latest M&S news and press releases.

Governance report

Our Pensions

Pension scheme governance

The Group operates a pension scheme which has a defined benefit ('DB') section for all employees with an appointment date prior to 1 April 2002 and a defined contribution ('DC') section open to those joining the Company on or after 1 April 2002. More information is given in note 11 on pages 87 to 90.

The Board of the Pension Trust ('Trustee Board') manages the DB and DC assets of the pension scheme, which are held under trust separately from those of the Group. The Board has four main committees: DB, DC, Investment and Actuarial Valuation. The Actuarial Valuation Committee meets only during times of planning and finalising the triennial funding review or more frequently if there are additional valuations.

The Trustee Board comprises Graham Oakley as independent Chairman, who replaced Tony Watson following his retirement on 1 April 2011, and Law Debenture Trust as independent Trustee, together with five Company representatives and five member representatives (Member Nominated Trustees – 'MNTs'). On 1 April there were two new Company representatives and one new MNT. A further MNT was confirmed in post for a second five year term. MNTs are appointed through a selection process.

The Trustee Board has a business plan and at the start of each year reviews performance against the plan and objectives from the previous year in addition to agreeing its objectives and associated budget for the current year. The Trustee Board is committed to clear member communication and has a communications strategy and plan which is reviewed at least annually. During the year the pension scheme received several commendations including a Professional Pensions award for Best Benefit Statement. The Trustee Board also has a risk register and associated action plan, a conflicts of interest policy and a register and code of ethics, all of which are reviewed at least annually.

A Board effectiveness review takes place each year and each Trustee Board Director has an individual training plan, which is based on the Pension Regulator's Trustee Knowledge and Understanding requirements and tailored to any skill gaps and specific committee roles. Eight Trustee Board members hold the Pensions Management Institute Award in Trusteeship and the new appointees are encouraged to join them.

All advisers, investment managers 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. During 2010/11 the appointment of the Scheme Actuary and Investment Adviser were reviewed and the existing advisers, Towers Watson, were retained.

The 2009 valuation was finalised in May 2010 and was followed by a project to introduce a new style of asset allocation monitoring which facilitates ongoing assessment of the investment strategy within established risk parameters. It is intended that this will provide enhanced measurement of key metrics for both Company and Trustee Board between valuations.

During the year the Scheme became a signatory to the UN Principles for Responsible Investment. The Trustee employs a specialist engagement service, Hermes Equity Ownership Services, to enhance stewardship and governance oversight of companies in which the scheme invests.

The Scheme has also Committed to become a signatory to the UK Stewardship Code which was published by the Financial Reporting Council in July 2010.

The DC section is a holder of the National Association of Pensions Funds Pensions Quality Mark Plus.

Our Committees

Introduction

What have our Committees done during the year?

Our non-executive directors continue to play an important governance role in the work they undertake on our Committees on behalf of the Board. They are all independent and selected to provide the required skills and expertise to fulfil their duties effectively. In December 2010 the Board reviewed the fees paid to our non-executives. These were last reviewed in February 2009. More on this can be found on page 57.

The Committees have had another year of high profile decisions. All Committees applied themselves to a number of key actions set out in our 2010/11 action plan. As a result, our non-executives committed significant time in addition to their scheduled meetings.

The year included the appointments of Robert Swannell, Alan Stewart and Laura Wade-Gery, which were proposed by the Nomination & Governance and the Remuneration Committees.

The new Executive team announced their strategy in November 2010. This has been incorporated into the Group Risk Profile and the new Senior Remuneration Scheme, involving both the Audit and Remuneration Committees.

Over the next few pages the Chairmen of each Committee have set out their areas of focus during the past year and provided details on Committee membership, effectiveness and their 2011/12 action plan.

As we report on page 44, all Committees were part of the independent, externally facilitated evaluation.

Nomination & Governance Committee

Robert Swannell

Chairman's overview

We have had a busy year, securing the appointments of Chairman, Chief Finance Officer and Executive Director, Multi-channel E-commerce. We have focused on ensuring we have the best Board to support the business going forward. For each position we spent a great deal of time with our external consultants, defining what the business needed. Considerable effort was then spent managing thorough, orderly searches and reviewing prospective internal and external candidates. We interviewed rigorously and have secured what we believe to be great appointments.

Our search to fill these roles highlighted that not enough was being done internally to identify and support tomorrow's leaders. Our Board effectiveness review mirrored this. As a result, our action plan will focus on ensuring succession is a key agenda item for 2011/12 and a considerable amount of time is now being dedicated to this.

Effectiveness of the Nomination & Governance Committee

Who's on our Committee?

Name of director	Nomination & Governance Committee A	B
Robert Swannell [1] (Committee Chairman)	6	6
Sir Stuart Rose (resigned 4 January 2011)	7	7
Sir David Michels [2]	13	12
Marc Bolland [3]	13	12
Jeremy Darroch [4]	13	11
Martha Lane Fox [5]	13	12
Steven Holliday [6]	13	12
Louise Patten	13	13
Jan du Plessis [7]	13	12

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

1) Robert Swannell joined the Committee on 4 October 2010 taking over as Chairman on 4 January 2011.

2) Sir David Michels was Chairman of the Committee until 4 January 2011. He was unable to attend the meeting on 25 March 2011 due to other business commitments.

3) Marc Bolland joined the Committee on 4 May 2010. He was unable to attend the meeting on 18 February 2011 due to personal commitments.

4) Jeremy Darroch – unable to attend the meetings on 14 July 2010 and 7 January 2011 due to business commitments with BSkyB.

5) Martha Lane Fox – unable to attend the meeting on 23 July 2010 due to other business commitments.

6) Steven Holliday – unable to attend the meeting on 19 January 2011 due to illness.

7) Jan du Plessis – unable to attend the meeting on 25 March 2011 due to business commitments with Rio Tinto.

What has the Committee done during the year?

- agreed process, timetable, shortlist and final recommendations for appointments of Chairman, Chief Finance Officer and Executive Director, Multi-channel E-commerce;
- undertook external review of its effectiveness;
- introduced more meetings and revised meeting agendas;
- reviewed impact of governance across the business;
- supported Sir Stuart Rose and Marc Bolland through the transition to separate the roles of Chairman and Chief Executive by end July 2010;
- reviewed skills mix of the wider Board and Committees following these appointments;
- kept governance connected with the business, spending time with leadership and our people.

What is the action plan for 2011/12?

- Conduct a thorough and transparent appointment process for the recommendation of new non-executive directors to ensure the Board is appropriately supported and strengthened;
- Review Board and Committee Composition to encourage real diversity of experience and outlook; and
- Create a clear framework to support succession planning and development for key managers.

Audit Committee

Jeremy Darroch

Chairman's overview

Last year we advised that the Board would increase its focus on risk appetite throughout 2010/11, while relying on the Audit Committee for oversight of the risk process as the business works towards its strategic objectives.

The Committee is satisfied that the Board maintains sound risk management and internal controls. To cultivate this confidence, the Committee received presentations from key representatives of the business throughout the year.

The presentations provided the Committee with valuable insight into the day-to-day operations and workings of the business units and supported two-way feedback with the relevant business unit director. Feedback on this engagement from those presenting has been very positive with the Committee's observations being cascaded back to their teams and reflected in their strategic and operational planning.

Key to giving us confidence in the Group's approach to controls and risk is the effectiveness of our external auditors, PricewaterhouseCoopers LLP. Their effectiveness enables us to recommend their reappointment for 2011/12. We judge them on the quality of their audit findings, management's response and stakeholder feedback. Their independence is displayed through their challenge on management. Their audit and non-audit fees are set and reviewed each year (see page 83). We ensure that our auditor engagement policy, which is reviewed annually and disclosed on our website marksandspencer.com/thecompany, is adhered to when non-audit work is commissioned. Audit partner rotation is also important to retain the objectivity of the process – Stuart Watson was appointed lead audit engagement partner in 2008/09.

We have also challenged appropriately to ensure that the Group Risk Profile reflects the risks associated with the new strategic plan.

Effectiveness of the Audit Committee

Who's on our Committee?

The Board is satisfied that at least one member has recent and relevant financial experience.

	Audit Committee	
Name of director	A	B
Jeremy Darroch (Committee Chairman)	5	5
Sir David Michels [1]	5	3
Martha Lane Fox	5	5
Steven Holliday [2]	5	3
Louise Patten	5	5
Jan du Plessis	5	5

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

1) Sir David Michels – unable to attend the meetings on 8 September 2010 and 16 March 2011 due to overseas business commitments.

2) Steven Holliday – unable to attend the meetings on 18 May 2010 due to business commitments with National Grid and 19 January 2011 due to illness.

What has the Committee done during the year?

Met separately with and received presentations from Food Product Safety and Governance; International; E-commerce; Human Resources; Corporate Communications and Plan A. The Committee focused on the risk profiles of each business unit and reviewed what actions they are taking or processes they have in place to manage or mitigate their risks. They also:

- received the Group Risk Profile to ensure the risks and actions are aligned to the strategy articulated by Marc Bolland in November 2010;
- set and reviewed our Non-Audit and Audit Fees;
- reviewed our directors' expenses and our tax strategy;
- received our Code of Ethics and Behaviours, our Data Protection and Data Management policy;
- discussed our approach and planning ahead of the implementation of the Bribery Act 2010;
- approved the report to shareholders regarding the principal risks and uncertainties;
- approved our Groceries Supply Code of Practice Annual Compliance Report and sent it to the Office of Fair Trading (a summary is provided on page 71);
- undertook external review of Committee effectiveness; and
- reviewed annual calendar and meeting agendas.

What is the action plan for 2011/12?

- Review Committee composition;
- Work with the Board to review any changes to our risk profile and support the Board debate on risk tolerance and appetite;
- Support the implementation of our anti-bribery policy following the introduction of the Bribery Act 2010;
- Monitor progress on Data Protection and Data Management Policy and the Code of Ethics and Behaviours;
- Review internal audit effectiveness in line with Chartered Institute of Internal Audit requirements; and
- Review ongoing learning and induction process for Committee members.

Assurance

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

- systems of internal control, covering all material controls, including financial, operational and compliance controls and risk management systems, 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; and
- 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 is 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.

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

Remuneration report

Remuneration Committee

Steven Holliday

There have been some significant changes at Marks & Spencer during the financial year which are reviewed in this report. Marc Bolland's appointment as Chief Executive Officer has led to a full strategic review of the Company's business plan, with the evolution of our corporate strategy communicated to investors as part of our market update in November.

In last year's report, the Remuneration Committee outlined its intention to review the Company's remuneration framework to ensure it remains fully aligned with business priorities. The clarity we now have around the strategy, and the medium to long-term objectives Marc has established for the business, has enabled the Committee to design a framework that reflects this updated business plan.

In addition, the review has also allowed us to respond to a number of views that our investors have expressed in relation to historic remuneration arrangements and practices. We have engaged in dialogue with a number of our key institutional investors in the development of these proposals, and we are grateful for their constructive engagement throughout this process.

In summary the long term remuneration framework has been developed to underpin the key business objectives of:

- focus on UK business: enhancing our brand, Clothing, Home, Food and stores;
- focus on our UK space and like-for-like growth;
- building our multi-channel capabilities to create best in class operations; and
- becoming a more international company with a global outlook and international capabilities.

As a Committee, our long-term philosophy for remuneration remains 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 proposals seek to rebalance the package in the following fundamental ways, with each discussed in greater detail in the body of this report:

Annual Bonus Plan:

- reduce the maximum annual incentive opportunity from 250% to 200% of salary, decreasing the emphasis on short term in favour of medium to long-term performance;
- maintain compulsory bonus deferral, with directors deferring 50% of any bonus due into Marks & Spencer shares for three years; and
- rebalance the focus on financial and strategic goals in the annual bonus, with 60% of bonus based on underlying Group Profit Before Tax (PBT), and the remaining 40% determined by performance against strategic measures which will be quantifiable, challenging, and subject to rigorous annual review. Two strategic measures will be collective so that all directors are focused on common goals, with the remaining measures relevant to each director's specific business area.

Long Term Incentive Plan (LTIP):

- remove the exceptional award limit of 400% of salary and establish the maximum individual award opportunity at a reduced level of 300% of salary. The Committee's intention is for award levels to be conventionally referenced to 250% of salary. This change, taken together with the change to the annual bonus opportunity, will give a greater weighting in the package towards long-term performance and value creation for shareholders; and
- move away from the use of adjusted (underlying basic) earnings per share (EPS) as the sole metric for LTIP awards, reflecting the strategic priorities we have for the business. LTIP awards in 2011/12 will drive performance based on the following key metrics: cumulative EPS performance (50% of the total award), Revenue (30% based equally on performance in three business segments: the UK, Multi-channel and International) and Return on Capital Employed (20%).

As previously indicated, these proposals have been finalised after a thorough consultation and taking into account the feedback we received from our key institutional investors and shareholder representative bodies.

The Committee believes that we have developed an incentive structure that will clearly support and motivate the team in a way that is aligned with the business strategy to deliver quality long-term growth for the business, and we will be seeking shareholder approval for these amendments to the LTIP at the 2011 AGM.

Steven Holliday, Chairman of the Remuneration Committee

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 UK Corporate Governance Code (published June 2010) 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 in Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. 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 13 July 2011.

PART 1: UNAUDITED INFORMATION

Remuneration Committee

What is the remit of the Remuneration Committee?

The role of the Committee is to recommend to the Board the senior remuneration strategy and framework, giving due regard to the financial and commercial health of the Company and to ensure the directors and senior management are fairly rewarded for their individual contribution to the Company's overall performance.

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;
- reviewing the effectiveness of the senior remuneration policy with regard to its impact and compatibility with the policy and arrangements throughout the rest of the organisation;
- determining the terms of employment and remuneration for executive directors and senior managers, including recruitment and termination terms;
- approving the design, targets and payments made for any annual incentive schemes that include executive directors and senior managers;
- agreeing the design, targets and annual awards made, of all share incentive plans requiring shareholder approval; and
- assessing the appropriateness and subsequent achievement of the performance targets related to any share incentive plans.

In undertaking these responsibilities, the Committee seeks external advice as necessary. To this end Deloitte LLP were selected and appointed as independent external advisors to the Committee from November 2010 onwards. Prior to this, Hewitt New Bridge Street (a brand of Aon) performed this role for over ten years. The Committee also seeks internal support from the Chairman, Group Secretary, Director of Human Resources and Head of Employee Relations and Reward, all of whom may 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, KPMG, Monks PwC, and Towers Watson.

Effectiveness of the Remuneration Committee

Who's on our Committee?

The following independent non-executive directors were members of the Committee during 2010/11 and continue to be members:

		Remuneration Committee	
Member	From	A	B
Steven Holliday (Chairman since 8 September 2009)	15 July 2004	9	9
Martha Lane Fox	1 June 2007	9	9
Sir David Michels[1]	26 May 2006	9	7
Louise Patten	1 February 2006	9	9
Jan du Plessis[2]	8 September 2009	9	7

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

1) Sir David Michels was unable to attend the Committee meetings on 8 December 2010 and 16 March 2011 due to overseas business commitments.

2) Jan Du Plessis was unable to attend the Committee meetings on 24 May 2010 due to business commitments with Rio Tinto and on 4 February 2011 due to personal commitments.

What has the Committee done during the year?

In line with its remit, the following key matters were considered by the Committee during the year:

Regular items:

- approval of the 2010 Directors' Remuneration report and review of the final outcome of AGM voting for the report;
- review of all share plan performance measures against 2010/11 half year and year end targets, including ratification of vesting levels for any 'good leavers' from the Company;
- review achievement of Annual Bonus Scheme profit against target and executive directors' individual objectives for 2010/11;
- 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 director shareholding guidelines and achievement of these for each executive director;
- consideration of current guidelines on executive remuneration by advisory bodies and institutional investors;
- annual review of all executive directors' and senior managers' base salaries and benefits in line with Company principles and ratification of subsequent salary increases;
- assessment of the risk environment surrounding the Company's current remuneration arrangements;
- agreeing the design and targets for the 2011/12 Annual Bonus Scheme, including sign off of individual objectives for executive directors;
- consideration of the performance measures and targets to be applied to the 2011/12 Performance Share Plan awards;
- review of Committee performance during the period; and
- review of Committee terms of reference.

Remuneration report

continued

What has the Committee done during the year?
continued

Other items:

- 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 Alan Stewart (Chief Finance Officer) and Laura Wade-Gery (Executive Director, Multi-channel E-commerce) as well as the leaving arrangements for Sir Stuart Rose and Ian Dyson;
- selection and appointment of new external advisors to the Committee;
- review of the current senior remuneration strategy and incentive arrangements and the design and development of a new remuneration package for all executives for 2011/12, as described in the introduction to this report; and
- review of pension arrangements for executive directors and senior managers in response to changes to tax relief.

What is the action plan for 2011/12?

As a result of a full review of the Committee's performance and effectiveness, the following actions points have been agreed for next year:

- review Committee composition;
- review learning / training and induction of Committee members and ensure appropriate and timely updates on market developments; and
- continue focus on shareholder engagement following implementation of the new senior remuneration framework.

Senior remuneration framework

How is the senior remuneration framework aligned to Company strategy?

As highlighted in the introduction to this Remuneration report, the Committee has undertaken a thorough and comprehensive review of the senior remuneration framework to ensure that is aligned to the Company strategy. The Company must be able to attract and retain leaders who are focused and encouraged to deliver the evolving business priorities within a framework that continues to be aligned with the interests of the Company's shareholders, for example through bonus deferral and shareholding requirements. In addition, the Committee has ensured that the incentive plans are effective in not only delivering the required financial results, but are integrally aligned to the current business strategy; in driving behaviours that uphold the Company's high ethical standards; and adequately take account of risk.

When completing the strategic review of the remuneration framework, the Committee considered that the existing incentive framework was fundamentally fit for purpose but that it required key changes to the performance measures, together with a rebalance to provide greater emphasis on medium to long-term performance.

In 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 2011/12, the Committee has decided that these should continue to be an integral part of strategic individual objectives. All executive directors and senior managers have individual objectives aligned not only to the business strategy and operating plan but also to Plan A.

What are the key elements of remuneration for executive directors?

The key elements of remuneration are:

- base 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.

For executive directors, based on the proposed senior remuneration framework, this can be summarised as follows:

Fixed remuneration	Policy for 2011/12	Delivery in 2011/12
Base salary	Reviewed against: – salary levels in comparably-sized companies and major retailers e.g. FTSE 25–75; – economic climate, market conditions and Company performance; – the level of salary 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 comprises both a defined benefit and a defined contribution section (depending on date of engagement). 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
Variable remuneration		
Annual Bonus Scheme: with compulsory deferral into shares	– drive profitability and strategic change across the whole organisation – stretching targets required to achieve 'maximum' payment – PBT, with an individual performance element linked to delivery of key strategic objectives – aligned to shareholder interests through annual financial performance as well as delivery of the overall business strategy	– bonus potential of up to 200% of salary for 'maximum' performance – 60% of bonus based on PBT targets – 40% of bonus based on strategic individual objectives – compulsory deferral of 50% of bonus earned into shares – deferred shares vest after three years, subject to continued employment
Performance Share Plan	– primary long-term incentive – link individual reward with long-term performance of the Company – aligned to shareholder interests and specifically with the Company's stated strategic objectives. – targets based on cumulative adjusted (underlying basic) earnings per share (EPS), Return On Capital Employed (ROCE) and Revenue growth across UK, International and Multi-channel business segments	– annual awards – plan provides for an individual award limit of 300% of salary, although the Committee's intention is that awards will conventionally be referenced to 250% of salary – awards may vest after three years based on achievement of performance targets

Remuneration report

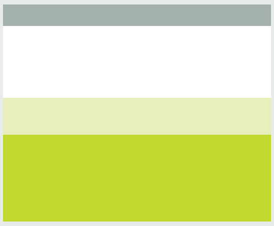
continued

What is the expected value of the proposed 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

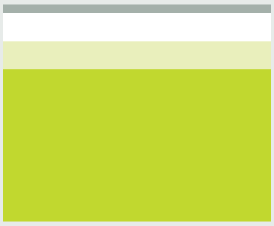
'On-target' performance



Pay at risk
- Long-term incentives **40%**
- Annual cash bonus **17%**

Fixed pay
- Salary **33%**
- Pension provision **10%**

'Maximum' performance

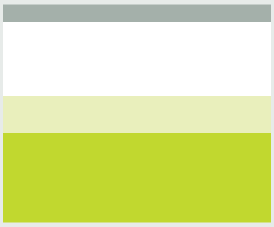


Pay at risk
- Long-term incentives **70%**
- Annual cash bonus **13%**

Fixed pay
- Salary **13%**
- Pension provision **4%**

Other executive directors

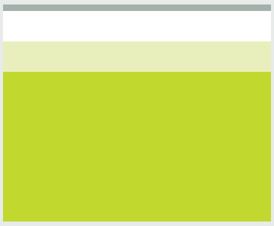
'On-target' performance



Pay at risk
- Long-term incentives **41%**
- Annual cash bonus **17%**

Fixed pay
- Salary **34%**
- Pension supplement **8%**

'Maximum' performance



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

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

The value attributed to long-term incentives in the above charts represents the expected net present value of bonus that is compulsorily deferred into shares and awards made under the Performance Share Plan.

The charts exclude specific awards made in the context of recruitment that do not form part of the normal annual package.

What are the details of fixed remuneration?

Executive directors

Salary

In reviewing executive director salary levels for 2011, the Committee considered current market conditions, the Company's performance in 2010/11 and the principles applying to decisions on general salary increases across the rest of the organisation. Marc Bolland and Alan Stewart agreed not to receive any increase during the year. The Committee has agreed specific individual increases for other individual executive directors (in the range of c.2%–5%), based on a number of factors including external market data for the role and individual performance. This approach is consistent with the wider salary review policy where individuals who achieved higher performance ratings were eligible to receive the highest increase. Current annual salaries for 2011 for executive directors are shown in the Contract terms table on page 61.

Benefits

Where applicable, executive directors (other than the CEO) receive a 25% salary supplement in lieu of membership of the Group Pension Scheme (the CEO receives a salary supplement of 30%), 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 63. 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 the subject of an Independent Trust. 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 87 of this Annual Report.

Chairman

The fee for the Chairman reflects the level of commitment and responsibility of the role and is determined by the Remuneration Committee and other members of the Board. Robert Swannell currently receives fees totalling £450,000. These are paid monthly in cash, inclusive of all committee roles and are not performance related or pensionable. The Chairman is entitled to the use of a car and driver, provided by the Company. He may benefit from employee product discount on the same terms as other employees.

Deputy Chairman

As per the Chairman's role, the fee for the Deputy Chairman reflects the level of commitment and responsibility of the role and is determined by the Chairman and executive directors. With the appointment of a Non-executive Chairman in January 2011, the fee for the Deputy Chairman was reviewed to take into account the new role and associated responsibility, together with consideration of fee levels for the role in comparably sized companies. As a result the agreed fee was reduced to £100,000. 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 is not performance related or pensionable, and there are no other benefits other than employee product discount on the same terms as other employees.

Non-executive directors

The fees for non-executive directors are determined by the 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 carried out in December 2010 which indicated that they were no longer appropriate in the current market (fees, although reviewed annually, had not been increased since April 2007). As a result, the fee structure was realigned from 1 January 2011, with the fee for committee membership being consolidated into an increased basic annual fee. In addition, the fee for the role of Audit and Remuneration Committee Chairman was increased. The revised fee structure is as follows:

Basic annual fee:	£70,000[1]
Committee Chairman:	£15,000[2]

1 Inclusive of all committee memberships
2 Audit and Remuneration Committee only

The new annual fees for non-executive directors are shown in the Contract terms table on page 61 and the Directors' emoluments table on page 63 shows the fees paid during the year to each non-executive director.

What are the details of the proposed short-term and long-term incentive schemes (variable remuneration)?

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

The Annual Bonus Scheme is reviewed each year and is designed to drive individual performance and profitability across the whole organisation. As described in the introduction to this report, a number of changes are being made to the bonus structure for 2011/12 as part of the review of our senior remuneration framework. These changes are set out in detail under 'Bonus scheme structure for 2011/12' further on in this section. However, the basic principles of scheme remain unchanged, with targets based on PBT and individual performance and a compulsory percentage of bonus deferred into Company shares which vest after three years, subject to continued employment. Further details of the Deferred Share Bonus Plan can be found in note 13 to the financial statements on page 92 of this Annual Report.

Bonus scheme structure for 2011/12

The bonus potential for executive directors is being reduced to 200% of salary for 'maximum' performance (previously 250%). As highlighted earlier, we are maintaining a compulsory deferral requirement, with the executive directors required to defer 50% of their bonus into Company shares which vest after three years, subject to continued employment.

For 2011/12, PBT will remain the primary performance measure, with 60% of the annual bonus being determined by performance against demanding profit targets set by the Committee at the start of the year. The balance of 40% will relate to performance against strategic individual objectives independent of PBT.

The Committee believes that this approach provides an appropriate focus on annual profitability targets while ensuring that participants are also focused on driving the changes in the business which underpin our medium-term strategy.

PBT targets

As in previous years, the PBT targets have been set based on the 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 2011/12, there is a requirement for both year-on-year PBT growth and outperformance of the operating plan. Very significant outperformance of the operating plan will be required for the highest bonus payment under this measure.

Strategic individual objectives

The choice of quantifiable and challenging strategic individual objectives, and the specific performance targets that apply, will be subject to rigorous annual review by the Committee at the time they are set for the year ahead, and at the end of the year when assessments of performance are made.

The strategic individual objectives that have been set for 2011/12 are directly referenced to workstreams that flow from the objectives outlined in the introduction to this report. Each executive director will be assessed on the basis of targets set in relation to four clearly articulated business objectives. Two of these will be 'collective', so that all directors are focused on these common goals, encouraging collaboration across the senior management group. For 2011/12, these shared objectives will relate to:

- delivery against UK operating plan cost targets; and
- progression in implementing 'Plan A' commitments.

The remaining two strategic individual objectives will relate to the specific business area for which the executive director has primary responsibility. For 2011/12, these objectives will be drawn from specific workstreams relevant to the business area, or relate to specific operating challenges. By way of illustration, these may include objectives relating to logistics and supply chain, product availability and brand management and impact.

Quantifiable performance metrics have been established in relation to each objective, and the Committee has agreed both 'threshold' and 'stretch' targets that must be achieved to demonstrate value-added performance.

In keeping with the principle that has applied for a number of years, no 'strategic' component of the bonus may be earned unless a 'threshold' level of PBT has been achieved. Given the importance of the strategic objectives to the success of the business, the PBT 'threshold' for this purpose is set below the entry point for the PBT performance target range. Any such bonus payment will be subject to the Committee's objective assessment of the overall performance of the business during the period.

Remuneration report

continued

Performance Share Plan (PSP) – long-term incentive

The Performance Share Plan will continue to be the primary long-term incentive for executive directors and senior managers in the Company. As described in the introduction to this report, shareholder approval is being sought at the AGM for a number of changes as part of the review of our Senior remuneration framework:

- the exceptional award limit of 400% of salary is being removed, and the maximum individual award opportunity will be established at a reduced level of 300% of salary. The Committee's intention is for award levels to be conventionally referenced to 250% of salary. This change, taken together with the reduction to the annual bonus opportunity, is value neutral but will give a greater weighting in the package towards long-term performance and value creation for shareholders; and
- we have historically focused entirely on point-to-point EPS growth. Going forward, performance will be assessed against metrics directly relating to the strategic priorities that have been established for the business and communicated to the market. PSP awards in 2011/12 will drive performance based on the key metrics set out in the tables below.

Each element of performance will be assessed independently. 'Threshold' performance against any metric will lead to 20% vesting of that element of the award. Awards will vest on a straight-line basis for performance between 'threshold' and 'maximum' performance. The Committee intends to keep the performance measures, and their relative weightings under review, and will ensure that appropriately stretching targets are set for each new performance cycle.

Performance Share Plan metrics for 2011/12

Performance metric	Weighting (% of total award)	Commercial rationale	Basis of measurement
EPS	50%	Ensure focus on bottom-line performance	Based on cumulative adjusted (underlying basic) EPS over the three-year performance period
ROCE	20%	Rewards efficient use of capital	Vesting based on average ROCE (%) over the three-year performance period against pre-determined targets
Revenue	30%	Encourage top-line growth in line with new strategy	Based on strategic growth targets provided in the market update: – 10% on UK; – 10% on Multi-channel; and – 10% on International

Performance Share Plan awards for 2011/12

For awards made in 2011/12, the performance targets that will apply in respect of each metric are:

	Cumulative EPS (p)	ROCE (%)	Revenue (FY14 – £m) UK[1]	Multi channel[2]	International[3]
Weighting (% of total award)	50%	20%	10%	10%	10%
'Threshold' performance	110p	17%	£9,200m	£700m	£1,100m
'Maximum' performance	130p	18.5%	£9,900m	£1,000m	£1,400m

1 Excluding Multi-channel.

2 Net of VAT/gross of returns.

3 Excluding Multi-channel/including Republic of Ireland.

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 2010/11. The Committee will continue to review the use of the scheme and retains the flexibility to grant awards under the scheme if appropriate.

All outstanding awards met their performance targets in previous years and are exercisable by participants. Individual executive directors have options granted in 2004 under the 2003 scheme as shown in the Share Option Schemes table on page 65.

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 ten-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.

The details of the options granted to executive directors are shown in the Share Option Schemes table on page 65. All were granted at a 20% discount on the share price at the start of the scheme.

What were the outcomes in 2010/11 for the short-term and long-term incentive schemes?

Annual Bonus scheme outcome for 2010/11

75% of the executive directors' bonus was based on PBT performance. The PBT targets set by the Committee at the start of the year were judged to be 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. The underlying PBT performance of £714.3m was marginally above 'on target' performance.

The remaining 25% of the executive directors' bonus for 2010/11 was based on individual director objectives aligned to the business priorities for the year. The personal performance by each director against these individual objectives has been reviewed by the Committee. Alongside relatively strong financial performance, the Committee has noted in particular that strong progress has been made in delivering the specific workstreams applicable to each business area; continued progress and a clear commitment to Plan A objectives is evident; and that these results have been underpinned by high level of leadership among the executive team in developing the strategy and building business capability.

Based on the review of achievement against the combination of financial and individual performance measures, bonus payments to executive directors for 2010/11 were agreed by the Committee at approximately 45% of the bonus maximum.

Performance Share Plan Outcome 2010/11

The performance condition attached to outstanding PSP awards is adjusted (underlying basic) EPS growth over the respective three-year performance period. The targets for all outstanding awards are shown in the table below:

Award	Average annual EPS growth in excess of inflation (RPI) 20% vesting[1]	100% vesting[1]	Adjusted EPS for start of scheme
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.

The minimum EPS target of RPI+3% over the three-year performance period for awards made in 2008 has not been achieved and so all awards under this PSP grant will lapse in June 2011.

Dilution limits

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). 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 ten-year period) and executive share plans (5% in any rolling ten-year period) was 6.52% and 1.39% respectively on 2 April 2011.

Board appointments and contracts

What were the changes to the Board during the year?

Directors appointed to the Board

Marc Bolland

Marc Bolland was appointed Chief Executive Officer from 1 May 2010. His remuneration package is consistent with the structure for executive directors outlined in this report, and the full terms of his package, including awards made to facilitate his appointment were disclosed in last year's report.

Alan Stewart

Alan Stewart was appointed Chief Finance Officer on 28 October 2010 on an annual salary of £550,000. He is entitled to participate in the executive incentive schemes in line with the framework for other executive directors. He is paid a 25% salary supplement in lieu of a pension contribution.

In connection with his appointment, Alan Stewart was made an award of restricted shares with a value of £300K, vesting on the first and second anniversary of grant, subject to continued employment and was granted a PSP award of one times salary, subject to the same performance conditions as apply to awards made under the scheme to other participants in 2010/11.

The restricted share award is not pensionable and was made under the terms of the Listing Rules 9.4.2R(2) in order to facilitate his appointment.

Remuneration report

continued

Robert Swannell

Robert Swannell was appointed to the Board as a non-executive director on 4 October 2010 and as Non-executive Chairman with effect from 4 January 2011. His fee as a non-executive director was £55,000 per annum. On appointment to Chairman his total fees increased to £450,000.

Directors retiring from the Board

Sir Stuart Rose

As described in last year's report, Sir Stuart Rose was due to leave the Company following the appointment of a new CEO, allowing for a period of transition of responsibilities. Accordingly, Sir Stuart Rose retired from the Board on 4 January 2011 and ceased to be employed by the Company on 28 February 2011. The emoluments table shows the value of payments made to Sir Stuart Rose during the period he provided services to the Company. His bonus for the financial year was determined based on performance in the normal way, but was pro-rated for time and to reflect a reduction in his salary with effect from 31 July 2010. As outlined in last year's report his bonus was based 60% on PBT and 40% on individual objectives with the total payment made in cash.

The status of his outstanding long-term incentive awards is shown in the table of 'Directors' interests in long-term incentive schemes'. In accordance with the terms of the relevant plans, share incentive awards vested on cessation, only to the extent that the relevant performance conditions have been satisfied (on the basis of the most recent reported results where the performance period has not fully elapsed).

Ian Dyson

Ian Dyson stepped down as Group Finance Director at last year's AGM, and ceased employment with the Group on 31 August 2010. The emoluments table shows the value of payments made during the period he provided services to the Company. In line with Company policy, he did not receive any deferred shares or balance of cash payment under the 2009/10 Annual Bonus; and was not entitled to receive any bonus for the part-year he was employed during 2010/11. Outstanding PSP awards lapsed following his cessation of employment.

What will be the changes to the Board in 2011/12?

Laura Wade-Gery

Laura Wade-Gery will join the Board as Executive Director, Multi-channel E-commerce on 4 July 2011. She will receive an annual salary of £525,000 and is entitled to participate in the executive incentive schemes in line with the framework for other executive directors. She will be paid a 25% salary supplement in lieu of a pension contribution.

In order to facilitate her recruitment, the Committee agreed the following maximum awards as necessary and appropriate to compensate her for incentive awards that are forfeited on cessation with her previous employer: an award of restricted shares with a gross value of £1.38m, vesting in tranches over the three years following grant, subject to continued employment; an award of shares with a gross value of £406k that will vest immediately but must be retained in accordance with the Company's shareholding policy outlined later in this report; and a cash payment of £335k. In connection with her appointment, the Committee has also determined that her initial award under the Performance Share Plan for 2011/12 will be at the level of 300% of salary, subject to the same performance conditions as awards made to other executive directors.

The restricted share award is not pensionable, and is made under the terms of the Listing Rules 9.4.2R(2) in order to facilitate her appointment.

Sir David Michels

As Chairman of the Nomination & Governance Committee during 2010/11, Sir David has successfully led the search for a new Non–executive Chairman, Chief Executive Officer and Chief Finance Officer. He has decided to retire from the Board following his second three-year term in February 2012. Sir David will remain as Deputy Chairman and Senior Independent Director until then.

Louise Patten

Louise Patten has served as a non-executive director since 2006. She has decided not to seek re-election this year and will retire from the Board following the AGM on 13 July 2011.

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.

Chairman and Deputy Chairman

Robert Swannell and Sir David Michels have 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 current members of the Board

Name	Date of appointment	Notice period/unexpired term	Basic salary/fee £000	Committee member fee £000	Committee chair/ Deputy Chairman/ SID fee £000	Current annual salary/fee £000	Annual salary/fee 2010 £000	Change[1] £000
Chairman								
Robert Swannell[2]	23/08/2010	6 mths/6 mths	450	–	–	450	-	–
Deputy Chairman								
Sir David Michels	01/03/2006	6 mths/6 mths	70	–	30	100	245	(145)
Chief Executive Officer								
Marc Bolland	01/05/2010	12 mths/6 mths	975	–	–	975	-	–
Executive directors								
Kate Bostock	10/03/2008	12 mths/6 mths	590	–	–	590	575	15
John Dixon	09/09/2009	12 mths/6 mths	540	–	–	540	512	28
Steven Sharp	08/11/2005	12 mths/6 mths	655	–	–	655	640	15
Alan Stewart	28/10/2010	12 mths/6 mths	550			550	-	–
Non-executive directors								
Jeremy Darroch	01/02/2006	3 mths/3 mths	70	–	15	85	73	12
Martha Lane Fox	01/06/2007	3 mths/3 mths	70	–	–	70	67	3
Steven Holliday	15/07/2004	3 mths/3 mths	70	–	15	85	79	6
Louise Patten	01/02/2006	3 mths/3 mths	70	–	–	70	67	3
Jan du Plessis	01/11/2008	3 mths/3 mths	70	–	–	70	67	3

1 All changes to salaries and fees were effective 1 January 2011.

2 Robert Swannell was appointed to the Board on 23 August 2010 on a basic fee of £55,000. He was appointed Chairman on 4 January 2011 on a total fee of £450,000 per annum.

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
Marc Bolland[1]	Manpower Inc	101
Ian Dyson	Betfair Group Ltd	26
Sir Stuart Rose	Land Securities Group plc	55
Steven Sharp	Adnams plc	28
Alan Stewart[2]	Mount Badon Ltd	–

1 Marc Bolland's fee is paid in cash and stock units and in dollars. For purposes of this table the values were converted to sterling using the £:$ spot rate as at 2 April 2011 for stock units and the average rolling £:$ rate during the year for cash payments.

2 Alan Stewart receives no fee for this appointment.

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 in the following table. Options granted under the SAYE scheme, the Executive Share Options Scheme and under the Performance Share Plan, Deferred Share Bonus Plan and Restricted Share Plan are shown in Part 2 of this report. Further information regarding employee share option schemes is given in note 13 to the financial statements on page 91 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 23 May 2011. No director had an interest in any of the Company's subsidiaries at the beginning or end of the year.

	Ordinary shares as at 3 April 2010	Ordinary shares as at 2 April 2011
Robert Swannell	–	70,000
Sir David Michels	113,984	113,984
Marc Bolland	–	147,430
Kate Bostock	165,443	182,514
John Dixon	71,434	102,529
Steven Sharp	299,538	387,808
Alan Stewart	–	10,000
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?

All executive directors are required to hold shares equivalent in value to a minimum percentage of their salary (200% for the CEO 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. Shares included in this measure are the directors' interests in the Company plus the net value of any unexercised awards under the Deferred Share Bonus Plan and Restricted Share Plan. Kate Bostock, John Dixon and Steven Sharp have all met their target shareholding. Marc Bolland and Alan Stewart are 50% and 34% respectively towards their target, both being within the first year of the five-year measurement period.

Remuneration report

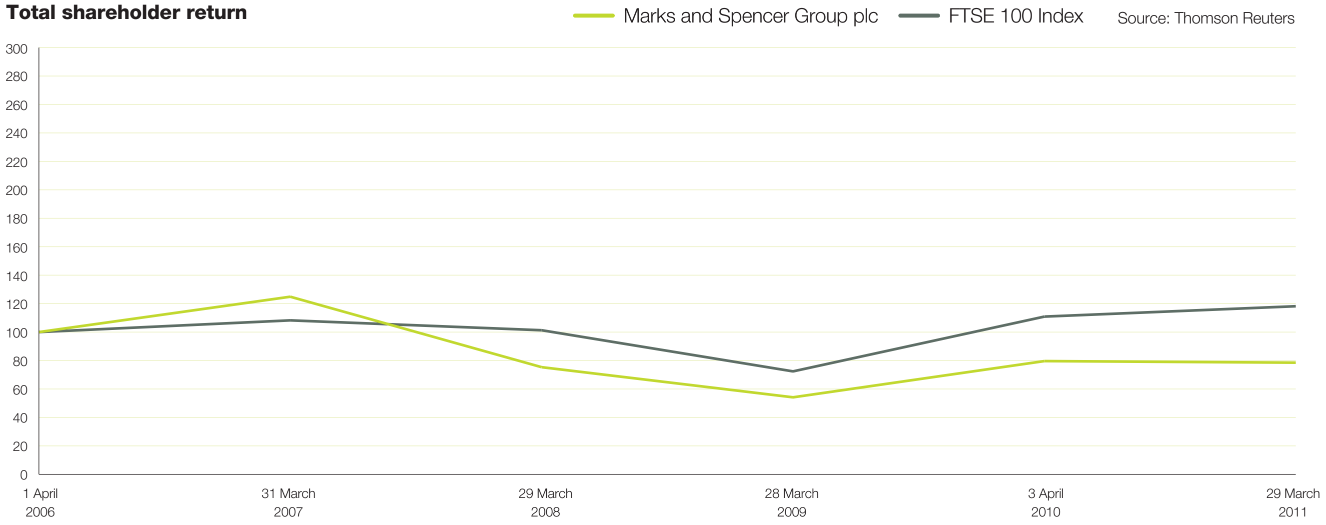
continued

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



PART 2: AUDITED INFORMATION

Directors' emoluments

	Salary/fee[3] £000	Cash allowance[4] £000	Relocation payment £000	Compensatory awards £000	Benefits[4] £000	Dividend equivalents £000	Bonus[5] £000	Total 2011 £000	Total 2010 £000
Chairman									
Robert Swannell	126	–	–	–	2	–	–	128	–
Deputy Chairman									
Sir David Michels	209	–	–	–	–	–	–	209	245
Chief Executive Officer									
Marc Bolland[1]	894	273	167	2,600	39	–	409	4,382	–
Executive directors									
Kate Bostock	579	150	–	–	30	–	258	1,017	1,612
John Dixon	519	67	–	–	–	–	247	833	654
Steven Sharp	644	166	–	–	41	–	287	1,138	1,402
Alan Stewart	235	58	–	–	19	–	100	412	–
Non-executive directors									
Jeremy Darroch	76	–	–	–	–	–	–	76	73
Martha Lane Fox	68	–	–	–	–	–	–	68	67
Steven Holliday	81	–	–	–	–	–	–	81	73
Louise Patten	68	–	–	–	–	–	–	68	70
Jan du Plessis	68	–	–	–	–	–	–	68	64
Directors retiring from the Board during the year									
Sir Stuart Rose[2]	897	301	–	–	26	186	1,361	2,771	2,606
Ian Dyson	288	79	–	–	–	–	–	367	1,514
Former directors	–	–	–	–	–	–	–	–	187
Total	4,752	1,094	167	2,600	157	186	2,662	11,618	8,567

1 Marc Bolland: The Compensatory awards include compensation of £1,600,000 in cash and £1,000,000 in shares for bonus and share awards that would have vested in 2010 had he remained with his previous employer (as described in detail in last year's report). The relocation payment of £167,000 was made under the normal terms of the Company's relocation policy for new recruits.

2 Sir Stuart Rose: His salary decreased on 31 July 2010 from £1,160,000 to £875,000. In addition to the elements described in footnote 4, the cash allowance figure also includes a holiday pay adjustment (as a result of the Working Time Directive relating to holidays and salary changes). His bonus earned in 2011 is fully paid in cash as described on page 60. The dividend equivalents paid were accrued between the date of grant and leaving date on his 2009 Performance Share Plan (PSP) and 2010 Deferred Share Bonus Plan (DSPB) awards (details of which are shown on page 64).

3 Executive director salary increases, where applicable, were effective from 1 January 2011 as set out on page 56 and in the Contracts table on page 61. Non-executive director fee increases/decreases were effective 1 January 2011 as described on page 57 and in the contracts table on page 61.

4 The elements included in the Cash allowance and Benefits columns of the table include pension supplement, car allowance, life assurance, and chauffeur as applicable to each director and are described on page 56.

5 For executive directors, 40% of the total bonus earned is paid in cash as shown in the table, and 60% in shares as part of the Deferred Share Bonus Plan (DSPB). The Deferred Share Bonus Plan awards will be made in June 2011. The total bonus earned by each executive director was: Marc Bolland: £1,023,344; Kate Bostock: £646,050; John Dixon: £618,300; Steven Sharp: £717,225; Alan Stewart: £250,939. The payments for Marc Bolland and Alan Stewart were pro-rated from the date of joining to year end.

Remuneration report

continued

Directors' interests in long-term incentive schemes

Share Schemes

	Date of award	Maximum shares receivable at 4 April 2010	Shares awarded during the year[4]	Shares vested during the year	Shares lapsed during the year	Maximum shares receivable at 2 April 2011 or on date of leaving	Market value on date of award (p)	Market value on date of vesting (p)	Vesting/ lapse date
Executive directors									
Kate Bostock									
Performance Share Plan[1]	05/06/07	169,827	–	–	169,827	–	706.6	–	05/06/10
Deferred Share Bonus Plan[2]	05/06/07	17,071	–	17,071	–	–	706.6	339.9	05/06/10
Total		186,898	–	17,071	169,827	–			
John Dixon									
Performance Share Plan[1]	05/06/07	62,270	–	–	62,270	–	706.6	–	05/06/10
Deferred Share Bonus Plan[2]	05/06/07	11,091	–	11,091	–	–	706.6	339.9	05/06/10
Restricted Share Plan[3]	20/01/09	14,724	–	14,724	–	–	228.2	339.9	05/06/10
Total		88,085	–	25,815	62,270	–			
Steven Sharp									
Performance Share Plan[1]	05/06/07	297,197	–	–	297,197	–	706.6	–	05/06/10
Deferred Share Bonus Plan[2]	05/06/07	65,640	21,153	86,793	–	–	706.6	341.9	05/07/10
Total		362,837	21,153	86,793	297,197	–			
Directors retiring from the Board during the year									
Sir Stuart Rose									
Performance Share Plan[1]	05/06/07	594,395	–	–	594,395	–	706.6	–	05/06/10
Deferred Share Bonus Plan[2]	05/06/07	222,898	44,738	267,636	–	–	706.6	341.9	05/07/10
Total		817,293	44,738	267,636	594,395	–			
Ian Dyson									
Performance Share Plan[1]	05/06/07	297,197	–	–	297,197	–	706.6	–	31/08/10
	09/06/08	530,660	–	–	530,660	–	381.6	–	31/08/10
	09/06/09	471,862	–	–	471,862	–	286.1	–	31/08/10
Deferred Share Bonus Plan[2]	05/06/07	111,449	–	111,449	–	–	706.6	–	05/06/10
Total		1,411,168	–	111,449	1,299,719	–			

1 The 2007 Performance Share Plan award did not meet the minumum EPS target of RPI +4% and so all awards lapsed. Full details of the plan are described on page 59.
2 Full details of the Deferred Share Bonus Plan are set out on page 92.
3 John Dixon was awarded the restricted shares before he was appointed executive director.
4 The shares represent the dividends paid on the 2007 Deferred Share Bonus Plan over the award's vesting period.

All other awards made under these plans were restructured as nil cost options on 1 November 2010 and are therefore shown in the Share Option Schemes table on page 65.

Share Option Schemes

	Date of grant	Maximum options receivable at 4 April 2010 or date of appointment	Options granted during the year	Options exercised during the year	Options lapsed during the year	Maximum options receivable at 2 April 2011 or on date of leaving	Option price (p)	Share price on date of award (p)	Option period
Chief Executive Officer									
Marc Bolland									
Performance Share Plan[1,2]	09/06/10	–	1,143,024	–	–	1,143,024	0.0	341.2	09/06/12 – 08/06/20
	09/06/10	–	1,143,024	–	–	1,143,024	0.0	341.2	09/06/13 – 08/06/20
Restricted Share Plan[1,4]	09/06/10	–	146,541	–	–	146,541	0.0	341.2	05/12/11 – 08/06/20
	09/06/10	–	146,542	–	–	146,542	0.0	341.2	08/06/12 – 08/06/20
SAYE	25/11/10	–	2,821	–	–	2,821	319.0	319.0	01/01/14 – 30/06/14
Total		–	2,581,952	–	–	2,581,952			
Executive directors									
Kate Bostock									
Performance Share Plan[1,2]	09/06/08	262,054	–	–	–	262,054	0.0	381.6	09/06/11 – 08/06/18
	09/06/09	349,528	–	–	–	349,528	0.0	286.1	09/06/12 – 08/06/19
	09/06/10	–	337,045	–	–	337,045	0.0	341.2	09/06/13 – 08/06/20
Deferred Share Bonus Plan[1]	09/06/10	–	242,672	–	–	242,672	0.0	341.2	09/06/13 – 08/06/20
Executive Share Option Scheme[3]	24/11/04	249,627	–	–	–	249,627	336.5	336.5	24/11/07 – 23/11/14
SAYE	21/11/08	4,729	–	–	–	4,729	203.0	203.0	01/01/12 – 30/06/12
Total		865,938	579,717	–	–	1,445,655			
John Dixon									
Performance Share Plan[1,2]	09/06/08	144,129	–	–	–	144,129	0.0	381.6	09/06/11 – 08/06/18
	09/06/09	314,575	–	–	–	314,575	0.0	286.1	09/06/12 – 08/06/19
	24/11/09	26,178	–	–	–	26,178	0.0	382.0	24/11/12 – 23/11/19
	09/06/10	–	300,410	–	–	300,410	0.0	341.2	09/06/13 – 08/06/20
Deferred Share Bonus Plan[1]	09/06/08	10,809	–	–	–	10,809	0.0	381.6	09/06/11 – 08/06/18
	09/06/10	–	223,054	–	–	223,054	0.0	341.2	09/06/13 – 08/06/20
Restricted Share Plan[1,5]	09/06/08	86,477	–	–	–	86,477	0.0	381.6	01/09/11 – 31/08/18
Executive Share Option Scheme[3]	20/07/04	25,935	–	–	–	25,935	347.0	347.0	20/07/07 – 19/07/14
SAYE	21/11/08	8,251	–	–	–	8,251	203.0	203.0	01/01/14 – 30/06/14
Total		616,354	523,464	–	–	1,139,818			
Steven Sharp									
Performance Share Plan[1,2]	09/06/08	592,243	–	–	–	592,243	0.0	381.6	09/06/11 – 08/06/18
	09/06/09	394,966	–	–	–	394,966	0.0	286.1	09/06/12 – 08/06/19
	09/06/10	–	375,146	–	–	375,146	0.0	341.2	09/06/13 – 08/06/20
Deferred Share Bonus Plan[1]	09/06/10	–	267,291	–	–	267,291	0.0	341.2	09/06/13 – 08/06/20
Executive Share Option Scheme[3]	20/07/04	302,593	–	–	–	302,593	347.0	347.0	20/07/07 – 19/07/14
	24/11/04	104,010	–	–	–	104,010	336.5	336.5	24/11/07 – 23/11/14
SAYE	21/11/08	4,729	–	–	–	4,729	203.0	203.0	01/01/12 – 30/06/12
Total		1,398,541	642,437	–	–	2,040,978			
Alan Stewart									
Performance Share Plan[2]	24/11/10	–	144,432	–	–	144,432	0.0	380.8	24/11/13 – 23/11/20
Restricted Share Plan[6]	24/11/10	–	39,390	–	–	39,390	0.0	380.8	24/11/11 – 23/11/20
	24/11/10	–	39,391	–	–	39,391	0.0	380.8	23/11/12 – 22/11/20
Total		–	223,213	–	–	223,213			

Remuneration report

continued

	Date of grant	Maximum options receivable at 4 April 2010 or date of appointment	Options granted during the year	Options exercised during the year	Options lapsed during the year	Maximum options receivable at 2 April 2011 or on date of leaving	Option price (p)	Share price on date of award (p)	Option period
Directors retiring from the Board during the year									
Sir Stuart Rose									
Performance Share Plan[1]	09/06/08	1,184,486	–	–	1,184,486	–	0.0	381.6	–
	09/06/09	789,933	–	–	–	789,933	0.0	286.1	28/02/11 – 27/02/12
Deferred Share Bonus Plan[1]	09/06/10	–	494,665	–	–	494,665	0.0	341.2	28/02/11 – 27/02/12
Executive Share Option Scheme[3]	20/07/04	979,825	–	–	–	979,825	347.0	347.0	20/07/07 – 28/02/12
SAYE	21/11/08	4,729	–	–	4,729	–	203.0	203.0	–
Total		2,958,973	494,665	–	1,189,215	2,264,423			
Ian Dyson									
SAYE	21/11/08	4,729	–	–	4,729	–	203.0	203.0	–
Total		4,729	–	–	4,729	–			

1 These awards were originally granted as conditional awards of shares vesting on a specified vesting date. For the Deferred Share Bonus Plan and Performance Share Plan the vesting date is three years from the date of grant. For the Restricted Share Plan, the vesting date will vary by each award. To provide executives with greater flexibility in their financial planning, the awards were restructured as nil cost options on 1 November 2010 to permit exercise of the options at any point between the vesting date and tenth anniversary of grant. There has been no amendment to the original performance conditions or performance, deferred or restricted period, as a result of this change. Awards under these plans that vested or lapsed before 1 November 2010 are shown in the previous Share Schemes table.

2 The number of options shown under the Performance Share Plan is the maximum (100%) number that could be receivable by the executive director if the EPS performance conditions are fully met as outlined on page 59. The award made in 2008 will lapse on 5 June 2011 as it has not met the minimum EPS target of RPI +3%. The interim measurement for the 2009 and 2010 awards indicates a current vesting of 100% and 98.9% respectively, based on latest reported results.

3 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;

The option price for grants made in July 2004 was above the market value on 2 April 2011;

The option price for grants made in November 2004 was below the market value on 2 April 2011.

4 As described in last year's Remuneration report, this award was made in connection with Marc Bolland's appointment to Chief Executive Officer, to compensate him for incentive awards that were forefeited on cessation with his previous employer.

5 John Dixon was awarded these Restricted Share Plan options before he was appointed executive director

6 As described in the 'Board Appointments' section of this report, this award was made in connection with Alan Stewart's appointment to Chief Finance Officer, to compensate him for incentive awards that were forfeited on cessation from his previous employer.

The market price of the shares at the end of the financial year was 338.9p; the highest and lowest share price during the financial year were 427.5p and 326.4p respectively.

The explanation of the performance criteria attached to the Performance Share Plan and the Executive Share Option Scheme is set out under Long-Term Incentive Schemes on page 59 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 him during the year ending 2 April 2011 are shown below:

	Age as at 2 April 2011	Accrued pension entitlement at 3 April 2010 £000	Accrued pension entitlement at 2 April 2011 £000	Additional pension earned during the period £000	Additional pension earned during the period above inflation £000	Transfer value of accrued pension at 3 April 2010 £000	Transfer value of accrued pension at 2 April 2011 £000	Increase in transfer value during the period £000	Transfer value of increase in accrued pension during the period above inflation £000
John Dixon	43	120	126	6	3	1,307	1,417	110	30

The accrued pension entitlement is the deferred pension amount that the director would receive at age 60 if he left the Company on 2 April 2011. The Listing Rules require this to be disclosed excluding inflation.

All transfer values have been calculated on the basis of actuarial advice in accordance with the current Transfer Values Regulations. The transfer values of the accrued entitlement represent the value of the 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 transfer value is the increase in the transfer value of the accrued benefits during the year.

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 56.

b) Payments to former directors

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

Unfunded pensions	2011 £000	2010 £000
Clinton Silver	111	108

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

Approved by the Board

Steven Holliday, Chairman of the Remuneration Committee
London
23 May 2011

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'). Marks & Spencer is one of the UK's leading retailers. We sell high quality, great value clothing and home products as well as outstanding quality food. Around 21 million customers visit our stores each week and we have 78,000 employees in the UK and in 42 territories globally. We source our products responsibly from over 2,000 suppliers around the world.

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 2 April 2011 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 are incorporated in this report by reference and can be found in the following sections:

- Chairman's statement on pages 2 to 3
- Chief Executive's review on pages 4 to 9
- Our Performance & Marketplace on pages 10 to 13
- Operating review on pages 14 to 33
- Principal risks and uncertainties on pages 45 to 47
- Financial risk management on pages 97 to 100
- Social, environmental and ethical matters on pages 30 to 31.

  More information is given in the How We Do Business report available on our website at marksandspencer.com/annualreport2011

Pages 1 to 72 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.

Other information to be disclosed in the Directors' report is given in this section and indexed on page 72.

Profit and dividends

The profit for the financial year, after taxation, amounts to £612.0m (last year £526.3m). The directors have declared dividends as follows:

Ordinary shares	£m
Paid interim dividend of 6.2p per share (last year 5.5p per share)	97.8
Proposed final dividend of 10.8p per share (last year 9.5p per share)	171.2
Total ordinary dividend, 17.0p per share (last year 15.0p per share)	269.0

The final ordinary dividend will be paid on 15 July 2011 to shareholders whose names are on the Register of Members at the close of business on 3 June 2011.

Share capital

The Company's issued ordinary share capital as at 2 April 2011 comprised a single class of ordinary share. Details of movements in the issued share capital can be found in note 26 to the financial statements. Each share carries the right to one vote at general meetings of the Company. During the period, 2,547,301 ordinary shares in the Company were issued as follows:

- 1,336,531 shares under the terms of the 2002 Executive Share Option Scheme at prices between 256p and 352p.
- 1,210,770 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 shareholders' rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board (as defined in the Articles) may decide. Subject to the Articles, the Companies Act 2006 and other shareholders' rights, unissued shares are at the disposal of the Board.

Powers for the Company issuing or buying back its own shares

The Company was authorised by shareholders, at the 2010 AGM, to purchase in the market up to 10% of the Company's issued share capital, as permitted under the Company's Articles. No shares have been bought back under this authority during the year ended 2 April 2011. This standard authority is renewable annually; the directors will seek to renew this authority at the 2011 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 shares may be varied with the written consent of the holders of at least three-fourths in nominal value of the issued shares of that class, or by a special resolution passed at a separate general meeting of the shareholders.

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

The directors were granted authority at the 2010 AGM to allot relevant securities up to a nominal amount of £131,895,652. That authority will apply until the conclusion of the 2011 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 £132,179,033, and (ii) comprising equity securities up to a nominal amount of £264,158,066 (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 2012 or, if earlier, on 1 October 2012.

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 £19,811,855. 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 Authority's (FSA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 23 May 2011, 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
Capital Research & Management	80,728,653	5.09%	Indirect interest
AXA S.A.	76,111,596	4.81%	Direct & indirect
Legal & General Group plc	63,188,329	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 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, as amended and restated pursuant to an amendment and restatement agreement dated 27 March 2006 between the Company and various banks, contains a provision such that, upon a change of control event, unless new terms are agreed within 60 days, the facility under this agreement will be cancelled with all outstanding amounts becoming immediately payable with interest;
- the 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 12 May 2010 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 that the Partnership surrenders its discretion over the payment of annual distributions to the Pension Fund, or increases the rate at which compensatory interest accrues on any annual payments by the Partnership that Marks and Spencer plc has elected (as general partner of the Partnership) 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.

Board of directors

The membership of the Board and biographical details of the directors are given on pages 38 and 39 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 61. Options granted under the Save As You Earn (SAYE) Share Option and Executive Share Option Schemes are shown on pages 65 to 66. Further information regarding employee share option schemes is given in note 13 to the financial statements.

Marc Bolland was appointed to the Board as Chief Executive on 1 May 2010, Sir Stuart Rose stepped down as Executive Chairman on 31 July 2010 becoming Chairman until his departure on 4 January 2011. As Senior Independent Director, Sir David Michels led the appointment of Robert Swannell who was appointed to the Board as a non-executive director on 4 October 2010, prior to his appointment as Chairman on 4 January 2011. Ian Dyson resigned from the Board as Chief Finance and Operations Director on 14 July 2010. Alan Stewart was appointed as Chief Finance Officer on 28 October 2011. In February 2011 the Company announced the appointment of Laura Wade-Gery as Executive Director, Multi-channel E-commerce, she will join the Board on 4 July 2011. In line with industry best practice, all directors will stand for election at the 2011 AGM, with the exception of Louise Patten, who has decided not to seek re-election this year and will step down from the Board at the conclusion of the 2011 AGM. Sir David Michels has also decided to step down from the Board following the end of his second three year term in February 2012.

Other disclosures

continued

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

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

Appointment and retirement of directors

The directors may from time to time appoint one or more directors. The Board may appoint any person to be a director (so long as the total number of directors does not exceed the limit prescribed in the Articles). Under the Articles any such director shall hold office only until the next AGM and shall then be eligible for election. The Articles also require that 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. However, in line with the UK Corporate Governance Code 2010 with the exception of Louise Patten, all directors will stand for annual election at the 2011 AGM.

Directors' conflicts of interest

The Company has procedures 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 2 April 2011 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 remain committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Group through personal briefings, regular meetings, personal letters home, email and broadcasts by the Chief Executive and members of the Board 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 business. These types of communication are supplemented by our employee publications including, 'Your M&S' magazine, Plan A updates and DVD presentations.

More than 3,500 employees are elected onto Business Involvement Groups ('BIGs') across every store and head office location to represent their colleagues in two-way communication and consultation with the Company. They have continued to play a key role in a wide variety of business changes, in what has been a very busy year.

The sixteenth meeting of the European Works Council ('EWC') (established in 1995) will take place in July 2011. This Council provides an additional forum for informing, consulting with 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. The EWC will have the opportunity to be addressed by the Chief Executive and other senior members of the Company on issues that affect the European business. This will include the Director of International and the Director of Plan A which impact across the European Community.

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

Share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. In particular, around 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 91 to 92.

We have launched a new interactive Wellbeing website called planahealth.com,a completely bespoke website and service designed exclusively for M&S employees. It gives any employee the opportunity to access a wealth of information, help and support suited specifically to them. We cover all areas of wellbeing, from healthy eating and exercise, to helping overcome issues like loneliness, stress, finance, work-life balance and problems with sleeping.

Employees are now able to interact with one another, post information about clubs and groups in their area and can gain access to information about corporate projects which link to their personal health pledges. The response since its launch in May 2010 has been incredible, with 10,500 employees making pledges to improve a specific health or wellbeing issue. We have already received hundreds of testimonials from employees stating not only that they are enjoying the programme, but also stating that they are enjoying its social/community-based style.

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. We are an organisation which uses everyone's talents and abilities and one where diversity is valued. We were one of the first major companies to remove the default retirement age in 2001 and have continued to see an increase in employees wanting to work past the state retirement age. Our oldest employee is 83 years old and joined the business at age 80. The Company featured in The Times Top 50 Places for Women to Work in April 2011 and considers this highlights how equal opportunities are available for all.

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.

Groceries Supply Code of Practice

The Groceries (Supply Chain Practices) Market Investigation Order 2009 ('Order') and The Groceries Supply Code of Practice ('GSCOP') came into force on 4 February 2010.

M&S has implemented a number of measures to ensure compliance with the Order and GSCOP:

- Amendment of the terms and conditions which govern the trading relationship between M&S and those of its suppliers that supply groceries to M&S to incorporate GSCOP. The revised terms were reissued to suppliers in January 2010, with a notice incorporating information required to be given to suppliers by Article 6(6) of the Order;
- Appointment of a Code Compliance Officer;
- Implementation of employee training on GSCOP, including annual refresher programmes and new starter training.

As part of M&S' ongoing compliance with the Order and GSCOP, M&S is required to submit an annual report detailing its compliance with GSCOP to the Audit Committee for approval and to the Office of Fair Trading. M&S submitted its first such report to the Audit Committee on 16 May 2011 covering the period from 4 February 2010 to 31 March 2011. The report refers to two allegations of breach of GSCOP by M&S – both involved allegations of breach by M&S of the fair dealing provision in paragraph 2 of GSCOP and one involved allegations of breach by M&S of the requirement not to require a supplier, directly or indirectly, to make any payment towards M&S' costs of opening a store (or warehouse, in this instance) in paragraph 6(d) of GSCOP. In both instances, M&S denied the allegations. In one instance the matter has been resolved.

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 26 and 60 days after the stock was invoiced;
- food payments are received between 19 and 26 days after the stock was invoiced; 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 2 April 2011 were 26 days, or 17 working days (last year 18 days, or 12 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 believe that the open market value of the properties of the Group as at 2 April 2011 exceeds their net book value as included in note 15 to these financial statements.

Charitable donations

During the year, and in line with our Plan A commitments, the Group made charitable donations to support the community of £12.3m (last year £13.2m), excluding management costs and memberships. These principally comprised cash donations of £6.9m (last year £5.3m) which included Breakthrough Breast Cancer, Macmillan Cancer Support, Groundwork, WWF, Shelter, our Marks & Start programme and local community donations. We also donated £1.3m (last year £1.6m) of employee time, principally on fundraising and volunteering, Marks & Start, school work experience programmes and stock donations of £4.1m (last year £6.3m) to a variety of charities including Oxfam, Newlife Foundation for Disabled Children and Shelter.

We also had another particularly successful year supporting a number of our charity partners in raising funds of £10.9m (last year £7.7m). This principally consisted of funds raised from customer clothing donations to Oxfam through The Clothing Exchange, funds raised by Groundwork as a result of M&S support and employee and customer donations.

Political donations

No political donations were made during the year ended 2 April 2011. 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.

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 37 as well as the Group's principal risks and uncertainties as set out on pages 45 to 47. 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.

Other disclosures

continued

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 2011 AGM.

Annual general meeting

The AGM of Marks and Spencer Group plc will be held at the Royal Festival Hall, Southbank Centre, London on 13 July 2011. 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
23 May 2011

Registered in England and Wales, Company No. 4256886

Independent auditors' report

to the members of Marks and Spencer Group plc

We have audited the financial statements of Marks and Spencer Group plc for the year ended 2 April 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated Statement of Changes in Equity and Company Statement of Changes in Shareholders' Equity, the Consolidated 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 72, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the 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. In addition, we read all the financial and non-financial information in the Annual report and financial statements 2011 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2 April 2011 and of the Group's profit and Group's and parent company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- 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; or

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 71, in relation to going concern;
- the parts 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; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Stuart Watson (Senior Statutory Auditor)
for and on behalf of **PricewaterhouseCoopers LLP**
Chartered Accountants and Statutory Auditors
London
23 May 2011

Consolidated income statement

	Notes	52 weeks ended 2 April 2011 £m	53 weeks ended 3 April 2010 £m
Revenue	2, 3	9,740.3	9,536.6
Operating profit	2, 3, 5	836.9	852.0
Finance income	6	42.3	12.9
Finance costs	6	(98.6)	(162.2)
Profit before tax	4	780.6	702.7
Income tax expense	7	(182.0)	(179.7)
Profit for the year		598.6	523.0
Attributable to:			
Equity shareholders of the Company		612.0	526.3
Non-controlling interests		(13.4)	(3.3)
		598.6	523.0
Basic earnings per share	8	38.8p	33.5p
Diluted earnings per share	8	38.4p	33.2p
Non-GAAP measures: Underlying profit before tax			
Profit before tax		780.6	702.7
Adjusted for:			
Profit on property disposals	5	(2.9)	(8.1)
IAS 19 Ireland one-off pension credit	5	(10.7)	–
IAS 36 Impairment of investment property	5	6.3	–
IAS 39 Fair value movement of financial instrument	5	(54.3)	–
IAS 39 Recognition of embedded derivative	5	(20.3)	–
Strategic programme costs	5	15.6	–
Underlying profit before tax	1	714.3	694.6
Underlying basic earnings per share	8	34.8p	33.0p
Underlying diluted earnings per share	8	34.4p	32.7p

Consolidated statement of comprehensive income

	52 weeks ended 2 April 2011 £m	53 weeks ended 3 April 2010 £m
Profit for the year	598.6	523.0
Other comprehensive income:		
Foreign currency translation differences	(16.4)	(17.4)
Actuarial gains/(losses) on retirement benefit schemes	286.0	(251.6)
Tax on retirement benefit schemes	(78.0)	71.7
Cash flow and net investment hedges		
– fair value movements in equity	(57.8)	52.1
– reclassified and reported in net profit	42.1	(119.8)
– amount recognised in inventories	(11.2)	4.8
Tax on cash flow and net investment hedges	19.4	25.9
Other comprehensive income/(loss) for the year, net of tax	184.1	(234.3)
Total comprehensive income for the year	782.7	288.7
Attributable to:		
Equity shareholders of the Company	796.1	292.0
Non-controlling interests	(13.4)	(3.3)
	782.7	288.7

Consolidated statement of financial position

	Notes	As at 2 April 2011 £m	As at 3 April 2010 £m
Assets			
Non-current assets			
Intangible assets	14	527.7	452.8
Property, plant and equipment	15	4,662.2	4,722.0
Investment property	16	16.0	22.4
Investment in joint ventures	17	13.0	11.5
Other financial assets	18	3.0	3.0
Retirement benefit asset	11	182.6	–
Trade and other receivables	19	276.1	287.7
Derivative financial instruments	23	21.8	132.9
Deferred tax assets	25	–	0.7
		5,702.4	5,633.0
Current assets			
Inventories		685.3	613.2
Other financial assets	18	215.9	171.7
Trade and other receivables	19	250.3	281.4
Derivative financial instruments	23	18.4	48.1
Current tax receivable		1.6	–
Cash and cash equivalents	20	470.2	405.8
		1,641.7	1,520.2
Total assets		7,344.1	7,153.2
Liabilities			
Current liabilities			
Trade and other payables	21	1,347.6	1,153.8
Borrowings and other financial liabilities	22	602.3	482.9
Partnership liability to the Marks & Spencer UK Pension Scheme	12	71.9	71.9
Derivative financial instruments	23	50.7	27.1
Provisions	24	22.7	25.6
Current tax liabilities		115.0	129.2
		2,210.2	1,890.5
Non-current liabilities			
Retirement benefit deficit	11	14.1	366.5
Trade and other payables	21	262.3	280.3
Borrowings and other financial liabilities	22	1,924.1	2,278.0
Derivative financial instruments	23	37.5	–
Provisions	24	22.0	25.5
Deferred tax liabilities	25	196.5	126.5
		2,456.5	3,076.8
Total liabilities		4,666.7	4,967.3
Net assets		2,677.4	2,185.9
Equity			
Called-up share capital	26	396.2	395.5
Share premium account		255.2	247.5
Capital redemption reserve		2,202.6	2,202.6
Hedging reserve		(11.3)	11.6
Other reserve		(6,042.4)	(5,970.5)
Retained earnings		5,873.2	5,281.9
Total shareholders' equity		2,673.5	2,168.6
Non-controlling interests in equity		3.9	17.3
Total equity		2,677.4	2,185.9

The financial statements were approved by the Board and authorised for issue on 23 May 2011. The financial statements also comprise the notes on pages 78 to 106.

Marc Bolland Chief Executive Officer

Alan Stewart Chief Finance Officer

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	Non-controlling interest £m	Total £m
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)
Tax on retirement benefit schemes	–	–	–	–	–	71.7	71.7	–	71.7
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 cash flow and net investment hedges	–	–	–	25.9	–	–	25.9	–	25.9
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 non-controlling 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 trusts	–	–	–	–	–	(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
At 4 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
Profit/(loss) for the year	–	–	–	–	–	612.0	612.0	(13.4)	598.6
Other comprehensive income:									
Foreign currency translation	–	–	–	(0.7)	–	(15.7)	(16.4)	–	(16.4)
Actuarial gains on retirement benefit schemes	–	–	–	–	–	286.0	286.0	–	286.0
Tax on retirement benefit schemes	–	–	–	–	–	(78.0)	(78.0)	–	(78.0)
Cash flow and net investment hedges									
– fair value movement in equity	–	–	–	(60.4)	–	2.6	(57.8)	–	(57.8)
– reclassified and reported in net profit[3]	–	–	–	42.1	–	–	42.1	–	42.1
– amount recognised in inventories	–	–	–	(11.2)	–	–	(11.2)	–	(11.2)
Tax on cash flow and net investment hedges	–	–	–	7.3	–	12.1	19.4	–	19.4
Total comprehensive income	–	–	–	(22.9)	–	819.0	796.1	(13.4)	782.7
Transactions with owners:									
Dividends	–	–	–	–	–	(247.5)	(247.5)	–	(247.5)
Recognition of financial liability[4]	–	–	–	–	(71.9)	–	(71.9)	–	(71.9)
Shares issued on exercise of employee share options	0.7	7.7	–	–	–	–	8.4	–	8.4
Purchase of own shares held by employee trusts	–	–	–	–	–	(12.0)	(12.0)	–	(12.0)
Charge for share-based payments	–	–	–	–	–	31.7	31.7	–	31.7
Deferred tax on share schemes	–	–	–	–	–	0.1	0.1	–	0.1
At 2 April 2011	396.2	255.2	2,202.6	(11.3)	(6,042.4)	5,873.2	2,673.5	3.9	2,677.4

1 The 'Other reserve' was originally 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 of £499.8m (last year £571.7m) (see note 12).

2 Includes a cumulative £19.1m gain (last year £34.8m gain) in the currency reserve.

3 Amounts reclassified and reported in net profit have all been recorded in cost of sales.

4 Following the Group's payment of an interim dividend in relation to 2010/11, the associated distribution of £71.9m became payable to the Marks & Spencer UK Pension Scheme and has been recognised as a liability (see note 12).

Consolidated cash flow information

	Notes	52 weeks ended 2 April 2011 £m	53 weeks ended 3 April 2010 £m
Consolidated statement of cash flows			
Cash flows from operating activities			
Cash generated from operations	28	1,385.2	1,349.7
Tax paid		(185.3)	(120.7)
Net cash generated from operating activities		1,199.9	1,229.0
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		–	(5.4)
Purchase of property, plant and equipment		(327.3)	(352.0)
Proceeds from sale of property, plant and equipment		3.5	20.9
Purchase of intangible assets		(126.5)	(77.5)
Purchase of current financial assets		(44.3)	(118.3)
Interest received		4.1	2.7
Net cash used in investing activities		(490.5)	(529.6)
Cash flows from financing activities			
Interest paid		(146.4)	(163.4)
Cash inflow from borrowings		18.4	30.7
Repayment of syndicated bank facility		(217.5)	(529.4)
Issue of medium-term notes		–	397.2
Redemption of medium-term notes		–	(200.4)
Monetisation of derivative assets		32.8	–
Decrease in obligations under finance leases		(15.7)	(17.0)
Payment of liability to the Marks & Spencer UK Pension Scheme		(67.9)	(68.0)
Equity dividends paid		(247.5)	(236.0)
Shares issued on exercise of employee share options		8.4	12.4
Purchase of own shares by employee trust		(12.0)	(19.0)
Net cash used in financing activities		(647.4)	(792.9)
Net cash inflow/(outflow) from activities		62.0	(93.5)
Effects of exchange rate changes		(1.2)	(2.1)
Opening net cash		202.7	298.3
Closing net cash	29	263.5	202.7

	Notes	52 weeks ended 2 April 2011 £m	53 weeks ended 3 April 2010 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		(2,068.4)	(2,490.8)
Net cash inflow/(outflow) from activities		62.0	(93.5)
Increase in current financial assets		44.3	118.3
Decrease in debt financing		249.9	386.9
Partnership liability to the Marks & Spencer UK Pension Scheme (non-cash)		(71.9)	–
Exchange and other non-cash movements		(116.8)	10.7
Movement in net debt		167.5	422.4
Closing net debt	29	(1,900.9)	(2,068.4)

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 37 as well as the Group's principal risks and uncertainties as set out on pages 45 to 47. 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:

- IAS 32 – 'Financial Instruments: Presentation – Classification of Rights Issues' is effective for the year ended 2 April 2011. The amendment addresses the accounting for rights issues denominated in a currency other than the functional currency of the issuer. This is not currently applicable to the Group, as it has not carried out any rights issues.

The following IFRSs, IFRIC interpretations and amendments have been issued but are not yet effective and have not been early adopted by the Group:

- IAS 24 (Revised 2009) – 'Related Party Disclosures' was issued in July 2010. It is effective for annual periods beginning on or after 1 January 2011. This is not currently applicable to the Group, as it does not transact with the government or other government related entities. The new definition of a related party is not expected to impact the Group's disclosures.
- IFRIC 19 – 'Extinguishing Financial Liabilities with Equity Instruments' was issued in July 2010. It is effective for annual periods beginning on or after 1 July 2010. It clarifies the accounting when an entity renegotiates the terms of a financial liability with its creditor resulting in the liability being extinguished through issuing its own equity instruments to the creditor. This is not expected to impact the results or net assets of the Group, as it has not currently extinguished any financial liabilities in this way.

Marks and Spencer Scottish Limited Partnership has taken exemption under paragraph 7 of the Partnership (Accounts) Regulations 2008 from the requirement to prepare and deliver financial statements 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.

A. Subsidiaries 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 property, plant and equipment 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.

B. Joint ventures Joint ventures are entities over which the Group has joint control, with a third party, to govern the financial and operating activities of that entity. The equity method is used to account for the Group's investments in joint ventures. Under the equity method investments are initially recognised at cost and the Group's share of post-acquisition profits or losses is recognised in the consolidated income statement within operating profit.

Losses in excess of the consolidated interest in joint ventures are not recognised, except where the Group has made a commitment to make good those losses.

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. Revenue from the sale of furniture and online sales are recorded on delivery of the goods to the customer.

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.

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.

1 Accounting policies continued

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 initially 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 three and ten 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 and 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, unless the term of the lease is shorter. 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 revenue and profits. The statements of financial position 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.

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities held at the end of the reporting period are translated at the closing balance sheet rate. The resulting exchange gain or loss is recognised within the income statement.

Taxation

Tax expense comprises current and deferred tax. Tax is recognised in the income statement, except to the extent it relates to items recognised in other comprehensive income or directly in equity, in which case the related tax is also recognised in other comprehensive income or directly in equity.

Deferred tax is accounted for using a temporary difference approach, and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, applying tax rates and laws enacted or substantively enacted at the end of the reporting period.

Notes to the financial statements continued

1 Accounting policies continued

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the reversal of the temporary difference can be controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes. Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

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 are 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 or loss'. Financial assets held at fair value through profit or 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.

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 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.

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.

1 Accounting policies continued

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 the income statement. Gains and losses from remeasuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in the income statement.

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.

D. Discontinuance of hedge accounting 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.

Embedded derivatives
Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the income statement. Embedded derivatives are carried in the statement of financial position at fair value from the inception of the host contract.

Changes in fair value are recognised within the income statement during the period in which they arise.

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:

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. Where there is a non-controlling interest, goodwill is tested for the business as a whole. This involves a notional increase to goodwill, adjusted to reflect the non-controlling shareholders' interest. Actual outcomes could vary from those calculated. See note 14 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 14 and 15 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 14 and 15 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 of assumptions and note 12 for critical judgements associated with the Marks & Spencer UK Pension Scheme interest in the Marks and Spencer Scottish Limited Partnership.

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 underlying 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 underlying 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:

- profits and losses on the disposal of properties and investment property impairment charges;
- costs relating to strategy changes that are not considered normal operating costs of the underlying business;
- one-off pension credits arising on changes of the defined benefit pension schemes; and
- non-cash fair value movements in financial instruments.

Notes to the financial statements continued

2 Segmental information

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.

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 non-underlying items from the operating segments. 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:

	52 weeks ended 2 April 2011			53 weeks ended 3 April 2010		
	Management £m	Adjustment[2] £m	Statutory £m	Management £m	Adjustment[2] £m	Statutory £m
General Merchandise	4,273.0	(39.4)	4,233.6	4,186.2	(34.2)	4,152.0
Food	4,543.9	(44.5)	4,499.4	4,455.5	(39.6)	4,415.9
UK revenue	8,816.9	(83.9)	8,733.0	8,641.7	(73.8)	8,567.9
Wholesale	343.7	–	343.7	297.7	–	297.7
Retail	665.8	(2.2)	663.6	673.1	(2.1)	671.0
International revenue	1,009.5	(2.2)	1,007.3	970.8	(2.1)	968.7
Group revenue	9,826.4	(86.1)	9,740.3	9,612.5	(75.9)	9,536.6
UK operating profit[1]	677.9	1.1	679.0	701.2	(0.1)	701.1
International operating profit	147.0	10.9	157.9	142.7	8.2	150.9
Group operating profit	824.9	12.0	836.9	843.9	8.1	852.0
Finance income	42.3	–	42.3	12.9	–	12.9
Finance costs	(152.9)	54.3	(98.6)	(162.2)	–	(162.2)
Profit before tax	714.3	66.3	780.6	694.6	8.1	702.7

1 UK operating profit includes a contribution of £35.2m (last year £30.4m) in respect of fees received from HSBC in relation to M&S Money.

2 Adjustments to revenue relate to revenue deductions recognised in cost of sales for management accounting purposes. In addition, underlying profit excludes profits and losses on the disposal of properties, impairment charges, pension credits arising on changes of the defined benefit pension schemes, non-cash fair value movements in financial instruments and costs relating to strategic changes that are not considered normal operating costs of the underlying business (see note 5).

Other segmental information

	2011			2010		
	UK £m	International £m	Total £m	UK £m	International £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	463.6	27.9	491.5	360.0	29.3	389.3
Depreciation and amortisation	434.5	33.0	467.5	398.7	29.2	427.9
Assets	6,287.6	1,056.5	7,344.1	6,242.7	910.5	7,153.2
Non-current assets	4,751.1	951.3	5,702.4	4,843.9	789.1	5,633.0

Strategy
Performance & Marketplace
Operating review
Financial review
Governance
Financial statements & other information

3 Expense analysis

	Underlying 2011 £m	Adjustments 2011 £m	Total 2011 £m	Underlying 2010 £m	Adjustments 2010 £m	Total 2010 £m
Revenue	9,740.3	–	9,740.3	9,536.6	–	9,536.6
Cost of sales	(6,015.6)	–	(6,015.6)	(5,918.1)	–	(5,918.1)
Gross profit	3,724.7	–	3,724.7	3,618.5	–	3,618.5
Selling and administrative expenses	(2,959.7)	–	(2,959.7)	(2,831.5)	–	(2,831.5)
Other operating income	59.9	–	59.9	56.9	–	56.9
Non-GAAP adjustments to underlying profit (see note 5)	–	12.0	12.0	–	8.1	8.1
Operating profit	824.9	12.0	836.9	843.9	8.1	852.0

The selling and administrative expenses in the table above are further analysed in the table below:

	2011 £m	2010 £m
Employee costs (see note 10A)	1,264.2	1,259.4
Occupancy costs	585.3	544.9
Repairs, renewals and maintenance of property	101.8	110.4
Depreciation	416.5	394.2
Amortisation	51.0	33.7
Other costs	540.9	488.9
Selling and administrative expenses	2,959.7	2,831.5

The presentation of selling and administrative expenses has been changed from that disclosed in the 2009/10 Annual Report to more accurately reflect the internal reporting of these expenses. The prior year figures have been restated on a consistent basis.

4 Profit before taxation

The following items have been included in arriving at profit before taxation:

	2011 £m	2010 £m
Net foreign exchange gains	(3.0)	(2.9)
Cost of inventories recognised as an expense	5,781.8	5,683.5
Depreciation of property, plant, and equipment		
– owned assets	403.3	380.4
– under finance leases	13.2	13.8
Amortisation of intangibles	51.0	33.7
Profit on property disposals	(2.9)	(8.1)
Operating lease rentals payable		
– property	247.6	220.7
– fixtures, fittings and equipment	8.7	10.8

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:

	2011 £m	2010 £m
Statutory audit services		
Annual audit of the Company and the consolidated financial statements	0.6	0.4
Audit of subsidiary companies	1.0	1.0
	1.6	1.4
Non-audit-related services		
Other services pursuant to legislation	0.1	0.1
Tax advisory services	0.6	0.6
Other services	0.1	0.1
	0.8	0.8

Notes to the financial statements continued

5 Non-GAAP performance measures

The adjustments made to reported profit before tax are income and charges that are one-off in nature, significance and impact the Group's underlying performance. These adjustments include:

- Profit and loss on the disposal of properties – these are one-off in nature and therefore create volatility in reported earnings;
- IAS 19 credit arising from changes to the Marks and Spencer Ireland defined benefit pension scheme whereby members' future pensionable pay increases have been capped at 4%;
- IAS 36 impairment of investment property – the value of an investment property has been impaired to reflect its recoverable value, in line with its current market value;
- IAS 39 fair value movement on the Czech put option – the put option value has been revised to reflect the latest five year business plan;
- IAS 39 initial recognition of the embedded derivative in a lease contract based upon the expected future RPI at the inception of the lease versus the lease contract in which rent increases are capped at 2.5%, with a floor of 1.5%; and
- Strategic programme costs relate to the strategy announcements made in November 2010 and include the write-off of technology store fit-out and associated costs, due to the Group's withdrawal of this department in stores, and also the costs associated with the Focus on UK plans. These costs are not considered normal operating costs of the business.

The adjustments made to reported profit before tax to arrive at underlying profit before tax are:

	Note	2011 £m	2010 £m
Profit on property disposals		2.9	8.1
IAS 19 Ireland one-off pension credit	11	10.7	–
IAS 36 Impairment of investment property	16	(6.3)	–
IAS 39 Fair value movement of financial instrument	6	54.3	–
IAS 39 Recognition of embedded derivative	23	20.3	–
Strategic programme costs		(15.6)	–
Total adjustments		66.3	8.1

6 Finance income/costs

	2011 £m	2010 £m
Bank and other interest receivable	4.7	2.1
Pension finance income (net) (see note 11E)	37.6	10.8
Finance income	42.3	12.9
Fee payable on the transfer of derivative assets to the pension fund	(8.5)	–
Premium on repurchase of debt	–	(13.5)
Interest on bank borrowings	(7.7)	(7.1)
Interest payable on syndicated bank facility	(1.8)	(5.9)
Interest payable on medium-term notes	(126.9)	(117.9)
Interest payable on finance leases	(4.2)	(5.3)
Unwind of discounts on financial instruments	(3.8)	(12.5)
Underlying finance costs	(152.9)	(162.2)
Fair value gain on financial instrument (see note 5)	54.3	–
Finance costs	(98.6)	(162.2)
Net finance costs	(56.3)	(149.3)

The fair value gain on financial instruments represents the fair value movement on the valuation of the put option over the 49% non-controlling interest in the share capital of Marks and Spencer Czech Republic a.s. This excludes the annual unwind of the discount on the financial instrument which is included in underlying finance costs (see note 23).

7 Income tax expense

A. Tax charge

	2011 £m	2010 £m
Current tax		
UK corporation tax on profits of the year		
– current year	215.8	170.3
– prior years	(8.6)	(5.2)
	207.2	165.1
Overseas current tax	11.1	6.1
Total current tax	218.3	171.2
Deferred tax		
– current year	(43.5)	5.4
– prior years	7.2	3.1
Total deferred tax (see note 25)	(36.3)	8.5
Total income tax expense	182.0	179.7

B. Tax reconciliation

	2011 £m	2010 £m
Profit before tax	780.6	702.7
Tax at the standard UK corporation tax rate of 28% (last year 28%)	218.6	196.8
Depreciation, charges and other amounts on non-qualifying fixed assets	1.9	1.4
Other income and expenses not taxable or deductible	(11.2)	(13.6)
Deferred tax rate change benefit	(12.9)	–
Overseas profits taxed at rates different to those of the UK	(4.2)	(6.3)
Benefit of current year losses not recognised	7.3	3.8
Adjustments to tax charge in respect of prior periods	(1.4)	(2.1)
Adjustments to underlying profit:		
Profit on property disposals	(0.8)	(0.3)
IAS 19 Ireland one-off pension credit	(1.7)	–
IAS 36 Impairment of investment property	1.8	–
IAS 39 Fair value movement of financial instrument	(15.2)	–
Deferred tax rate change benefit	(0.2)	–
Total income tax expense	182.0	179.7

The effective tax rate was 23.3% (last year 25.6%) and the underlying effective tax rate was 25.1% (last year 25.6%).

On 23 March 2011, the Chancellor of the Exchequer announced a number of changes to the UK corporation tax system, including a reduction of the main rate of corporation tax from 28% to 26% with effect from 1 April 2011. This change of rate became substantively enacted for the purposes of IAS 12 – 'Income Taxes' on 29 March 2011 when the House of Commons passed a resolution in respect it under the Provisional Collection of Taxes Act 1968. The Group has remeasured its UK deferred tax assets and liabilities at the end of the reporting period at 26%, which has resulted in recognition of a deferred tax credit of £13.1m in the income statement (reducing the total effective tax rate by 1.7%), and recognition of a deferred tax credit of £1.3m in other comprehensive income.

The Chancellor also announced his intention to reduce the rate of corporation tax by 1% per year to 23% by 1 April 2014. As these changes have not been substantively enacted at the date of the statement of financial position, they have not been recognised in these financial statements. Had these changes been enacted, then the cumulative effects would have been credits to the income statement of £19.6m (25%), £26.2m (24%), or £32.7m (23%), and credits to other comprehensive income of £1.9m (25%), £2.5m (24%), or £3.1m (23%).

Notes to the financial statements continued

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 underlying earnings per share figures have also been calculated based on earnings before profits and losses on the disposal of properties, impairment charges, pension credits arising on changes of the defined benefit pension schemes, and non-cash fair value movements in financial instruments, and costs relating to strategic changes that are not considered normal operating costs of the underlying business (see note 5). 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 underlying earnings per share are set out below:

	2011 £m	2010 £m
Profit attributable to equity holders of the parent	612.0	526.3
(Less)/add (net of tax):		
Profit on property disposals	(2.9)	(8.1)
IAS 19 Ireland one-off pension credit	(9.4)	–
IAS 36 Impairment of investment property	6.3	–
IAS 39 Fair value movement of financial instrument	(54.3)	–
IAS 39 Recognition of embedded derivative	(15.1)	–
Strategic programme costs	11.5	–
Underlying profit attributable to equity holders of the parent	548.1	518.2

	Million	Million
Weighted average number of ordinary shares in issue	1,577.1	1,572.2
Potentially dilutive share options under Group's share option schemes	15.6	14.3
Weighted average number of diluted ordinary shares	1,592.7	1,586.5

	Pence	Pence
Basic earnings per share	38.8	33.5
Diluted earnings per share	38.4	33.2
Underlying basic earnings per share	34.8	33.0
Underlying diluted earnings per share	34.4	32.7

9 Dividends

	2011 per share	2010 per share	2011 £m	2010 £m
Dividends on equity ordinary shares				
Paid final dividend	9.5p	9.5p	149.7	149.6
Paid interim dividend	6.2p	5.5p	97.8	86.4
	15.7p	15.0p	247.5	236.0

In addition, the directors have proposed a final dividend in respect of the year ended 2 April 2011 of 10.8p per share amounting to a dividend of £171.2m. It will be paid on 15 July 2011 to shareholders who are on the Register of Members on 3 June 2011. In line with the requirements of IAS 10 – 'Events after the Reporting Period', this dividend has not been recognised within these results.

The Group's policy to grow dividends in line with underlying earnings per share is explained in the Financial review on page 36.

10 Employees

A. Aggregate remuneration

The aggregate remuneration and associated costs of Group employees were:

	2011 Total £m	2010 Total £m
Wages and salaries	1,077.0	1,083.9
Social security costs	78.5	73.2
Pension costs	60.0	57.3
Share-based payments (see note 13)	31.7	28.5
Employee welfare and other personnel costs	37.2	36.2
Capitalised staff costs[1]	(20.2)	(19.7)
Aggregate remuneration	1,264.2	1,259.4
One-off pension credit (see note 5)	(10.7)	–
Total	1,253.5	1,259.4

1 Staff costs are capitalised in the development of intangible assets (see note 1).

Details of key management compensation are given in note 30.

B. Average number of employees

	2011	2010
UK stores		
– management and supervisory categories	5,696	5,396
– other	63,005	61,946
UK head office		
– management and supervisory categories	2,453	2,389
– other	681	912
Overseas	6,334	5,624
Total average number of employees	78,169	76,267

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 54,675 (last year 52,994).

C. Directors' emoluments

Emoluments of directors of the Company are summarised below. Further details are given in the Remuneration report on pages 52 to 67.

	2011 £m	2010 £m
Aggregate emoluments	11,618	8,380

The emoluments exclude payments to former directors of £nil (last year £187,000).

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 17,000), 56,000 deferred members (last year 56,000) and 47,000 pensioners (last year 45,000). At the year end, the defined contribution section had some 9,000 active members (last year 8,000) and some 2,000 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 one-off pension credit of £10.7m) of £22.4m (last year £46.5m), £1.0m (last year £27.0m) relates to the UK defined benefit section, £14.3m (last year £12.7m) to the UK defined contribution section and £7.1m (last year £6.8m) to other retirement benefit schemes.

Notes to the financial statements continued

11 Retirement benefits continued

A. Pensions and other post-retirement liabilities

	2011 £m	2010 £m
Total market value of assets	5,398.1	4,948.6
Present value of scheme liabilities	(5,215.5)	(5,298.6)
Net funded pension plan asset/(deficit)	182.6	(350.0)
Unfunded retirement benefits	(0.9)	(0.9)
Post-retirement healthcare	(13.2)	(15.6)
Net retirement benefit asset/(deficit)	168.5	(366.5)
Analysed in the statement of financial position as:		
Retirement benefit asset	182.6	–
Retirement benefit deficit	(14.1)	(366.5)
	168.5	(366.5)

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 was agreed with the Trustees. 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 – 'Employee Benefits' in order to assess the liabilities of the schemes:

	2011 %	2010 %
Rate of increase in salaries	1.0	1.0
Rate of increase in pensions in payment for service		
– pre-April 1997	2.8	2.7
– between April 1997 and July 2005	3.4	3.5
– post-July 2005	2.4	2.3
Discount rate	5.5	5.5
Inflation rate	3.4	3.6
Long-term healthcare cost increases	7.4	8.6

The inflation rate of 3.4% reflects the Retail Price Index (RPI) rate. In line with changes to legislation certain benefits have been calculated with reference to the Consumer Price Index (CPI) as the inflationary measure and in these instances a rate of 2.7% has been used. The change from RPI to CPI for deferred revaluation has been included in these results, resulting in a gain of approximately £170m, taken as an actuarial gain on the obligation.

The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased/decreased by 0.1% the IAS 19 surplus would increase/decrease by c.£90m (last year £90m). If the inflation rate increased by 0.1%, the IAS 19 surplus would decrease by c.£55m and if the inflation rate decreased by 0.1%, the IAS 19 surplus would increase by c.£45m.

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:

		2011 years	2010 years
Current pensioners (at age 65)	– males	22.0	21.9
	– females	23.4	23.3
Future pensioners (at age 65)	– males	23.2	23.1
	– females	24.3	24.2

11 Retirement benefits continued

D. Analysis of assets and expected rates of return

The major categories of assets as a percentage of total plan assets are:

	2011 £m	2010 £m	2011 %	2010 %
Scottish Limited Partnership interest (see note 12)	656.0	631.7	12	13
UK equities	303.3	415.7	6	8
Overseas equities	839.4	1,283.4	16	26
Government bonds	1,791.9	53.9	33	1
Corporate bonds	1,531.4	2,520.8	28	51
Swaps[1]	(48.2)	(245.1)	(1)	(5)
Cash and other	324.3	288.2	6	6
	5,398.1	4,948.6	100	100

1 The swaps hedge interest and inflation rate exposures within the schemes' liabilities.

The expected long-term rates of return are:

	2011 %	2010 %
Scottish Limited Partnership interest (see note 12)	4.6	5.1
UK equities	8.4	8.4
Overseas equities	8.4	8.4
Government bonds	4.3	4.5
Corporate bonds	5.8	5.5
Swaps	4.1	4.5
Cash and other	4.1	4.4
Overall expected return	5.8	6.5

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 122,362 (last year 232,042) ordinary shares in the Company through its investment in an Aquila Life UK Equity Index Fund.

E. Analysis of amount charged against profits

	2011 £m	2010 £m
Operating cost		
Current service cost	59.0	56.3
Curtailment charge	1.0	1.0
One-off pension credit (see note 5)	(10.7)	–
	49.3	57.3
Finance cost		
Expected return on plan assets	(323.1)	(281.4)
Interest on scheme liabilities	285.5	270.6
Net finance income	(37.6)	(10.8)
Total	11.7	46.5

F. Scheme assets

Changes in the fair value of the scheme assets are as follows:

	2011 £m	2010 £m
Fair value of scheme assets at start of year	4,948.6	3,977.0
Expected return on scheme assets[1]	323.1	281.4
Employer contributions	259.8	82.7
Contributions from scheme members	0.2	–
Benefits paid	(256.3)	(257.0)
Actuarial gain	124.1	867.7
Exchange movement	(1.4)	(3.2)
Fair value of scheme assets at end of year	5,398.1	4,948.6

1 The actual return on scheme assets was £447.2m (last year return of £1,149.1m).

Notes to the financial statements continued

11 Retirement benefits continued

In 2007/08 the Group agreed to pre-fund £200.0m of its annual contributions to the UK Defined Benefit Pension Scheme. The prepayment is in respect of annual contributions to the UK scheme at the rate of 17.9% of pensionable salaries. The remaining £19.0m of the prepayment will be utilised during the year ended 31 March 2012 to fund the annual contributions, as well as c.£16m of cash. In addition to this, a further £35.0m of cash contributions was made in April 2011 per the funding plan agreed in May 2010.

G. Retirement benefit obligations

Changes in the present value of retirement benefit obligations are as follows:

	2011 £m	2010 £m
Present value of obligation at start of year	5,315.1	4,129.2
Current service cost	59.0	56.3
Curtailment charge	1.0	1.0
One-off pension credit (see note 5)	(10.7)	–
Interest cost	285.5	270.6
Contributions from scheme members	0.2	–
Benefits paid	(256.3)	(257.0)
Actuarial (gain)/loss	(161.9)	1,119.3
Exchange movement	(2.3)	(4.3)
Present value of obligation at end of year	5,229.6	5,315.1
Analysed as:		
Present value of pension scheme liabilities	5,215.5	5,298.6
Unfunded pension plans	0.9	0.9
Post-retirement healthcare	13.2	15.6
Present value of obligation at end of year	5,229.6	5,315.1

H. Cumulative actuarial gains and losses recognised in equity

	2011 £m	2010 £m
Loss at start of year	(1,508.9)	(1,257.3)
Net actuarial gains/(losses) recognised in the year	286.0	(251.6)
Loss at end of year	(1,222.9)	(1,508.9)

I. History of experience gains and losses

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Experience adjustments arising on scheme assets	124.1	867.7	(1,280.3)	(422.6)	(80.4)
Experience (losses)/gains arising on scheme liabilities	(8.4)	36.2	81.2	(61.5)	18.8
Changes in assumptions underlying the present value of scheme liabilities	170.3	(1,155.5)	272.0	1,089.5	53.0
Actuarial gains/(losses) recognised in equity	286.0	(251.6)	(927.1)	605.4	(8.6)
Fair value of scheme assets	5,398.1	4,948.6	3,977.0	5,045.5	5,227.5
Present value of scheme liabilities	(5,215.5)	(5,298.6)	(4,112.4)	(4,542.3)	(5,487.0)
Pension scheme asset/(deficit)	182.6	(350.0)	(135.4)	503.2	(259.5)

12 Marks & Spencer UK Pension Scheme interest in the Scottish Limited Partnership

Marks and Spencer plc is a general partner and the Marks & Spencer UK Pension Scheme is a limited partner of the Marks and Spencer Scottish Limited Partnership. As such, the partnership is consolidated into the results of the Group.

The Marks and Spencer Scottish Limited Partnership holds £1.5bn of properties which have been leased back to Marks and Spencer plc at market rates. The Group retains control over these properties, including the flexibility to substitute alternative properties. The limited partnership interest (held by the Marks & Spencer UK Pension Scheme) entitles the Pension Scheme to receive an annual distribution of £71.9m from the profits of the Partnership earned from rental income, discretionary at the instance of Marks and Spencer plc. The discretionary right is exercisable if the Group does not pay a dividend or make any other form of return to its shareholders.

This is an equity instrument, disclosed within other reserves. Since the Group has paid an interim dividend in relation to 2010/11, the associated distribution of £71.9m is payable to the Pension Scheme and has been recognised as a liability (last year £71.9m), and is reflected as reduction in other reserves. When such reserves are no longer sufficient, this distribution will be charged to retained earnings. The future value of total discretionary scheduled payments is approximately £791m (last year £862m).

Under IAS 19, the partnership interest of the Pension Scheme in the Marks and Spencer Scottish Limited Partnership is included within the UK pension scheme assets, valued at £656.0m (last year £631.7m). For further details see note 11. The market value of this non-quoted financial asset is measured based on the expected cash flows and benchmark asset-backed credit spreads.

12 Marks & Spencer UK Pension Scheme interest in the Scottish Limited Partnership continued

As general partner, Marks and Spencer plc has a right of pre-emption in respect of a transfer by the Pension Scheme of its limited partnership interest to another party. This allows the general partner to direct that, instead of transferring the limited partnership interest to such a party, the general partner can instead nominate the transferee. In addition, the partnership 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.

13 Share-based payments

The charge for share-based payments for the year was £31.7m (last year £28.5m). Of the total share-based payments charge, £11.4m relates to the Save As You Earn Share Option scheme. The remaining charge is spread over the other schemes. Further details of the option and share schemes that the Group operates are provided in the Remuneration report on pages 52 to 67.

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 six month period after the completion of the SAYE contract, either three or five years after entering the scheme.

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the year	52,560,561	249.9p	57,863,061	252.2p
Granted	8,162,499	319.0p	8,566,762	292.0p
Exercised	(1,210,770)	324.7p	(3,544,310)	260.9p
Forfeited	(3,755,659)	266.4p	(5,052,662)	277.6p
Expired	(1,460,710)	530.6p	(5,272,290)	309.8p
Outstanding at end of the year	54,295,921	249.9p	52,560,561	249.9p
Exercisable at end of year	2,150,364	446.6p	1,705,532	486.7p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 366.3p (last year 360.4p).

The fair values of the options granted during the year have been calculated using the Black-Scholes model assuming the inputs shown below:

	2011	2010
	3-year plan	3-year plan
Grant date	Nov 10	Nov 09
Share price at grant date	399p	365p
Exercise price	319p	292p
Option life in years	3 years	3 years
Risk-free rate	1.5%	1.6%
Expected volatility	44.5%	44.1%
Expected dividend yield	4.0%	4.1%
Fair value of option	125p	113p

Volatility has been estimated by taking the historic volatility in the Company's share price over a three year period.

The resulting fair value is expensed over the service period of three 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	2011	2010	2011	2010	Option price
January 2005	–	312,805	–	0.2	280p
January 2006	538,403	1,471,579	0.2	1.2	349p
January 2007	630,926	2,016,402	1.2	0.9	559p
January 2008	2,178,087	2,440,739	0.9	2.0	517p
January 2009	35,826,944	38,009,851	2.0	3.0	203p
January 2010	7,253,289	8,309,185	2.2	3.2	292p
January 2011	7,868,272	–	3.2	–	319p
	54,295,921	52,560,561	2.2	2.9	250p

Notes to the financial statements continued

13 Share-based payments continued

B. 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 (underlying basic) 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 58. Awards under this scheme have been made in each year since 2005.

C. 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, 4,982,573 shares (last year 98,515) have been awarded under the Plan in relation to the annual bonus. The fair value of the shares awarded was 341.2p (last year 286.1p). As at 2 April 2011, 4,948,663 shares (last year 307,309) were outstanding under the scheme.

D. 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, 651,000 shares (last year 342,600) have been awarded under the Plan. The weighted average fair value of the shares awarded was 355.2p (last year 348.6p).

E. 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 Plan 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. There were not any shares outstanding under the Plan at 2 April 2011 (last year 22,000).

F. 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 ten 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, 147,100 options (last year 287,235) were granted, at a fair value of 124.9p (last year 113.1p).

G Marks and Spencer Employee Benefit Trust
The Marks and Spencer Employee Benefit Trust (the Trust) holds 8,851,592 (last year 7,299,755) shares with a book value of £27.6m (last year £24.1m) and a market value of £29.8m (last year £27.1m). These shares were acquired by the Trust in the market and are shown as a reduction in retained earnings in the consolidated statement of financial position. 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.

* Nil cost options
Awards made under the Performance Share Plan (PSP), Deferred Share Bonus Plan (DSBP) and Restricted Share Plan (RSP) were originally granted as conditional awards of shares, vesting on a specified vesting date. For the DSBP and PSP the vesting date is three years from the date of grant. For the RSP, the vesting date will vary by each award. All outstanding awards under these plans were restructured as nil cost options from 1 November 2010 to permit exercise of the option at any point between the vesting date and the tenth anniversary of grant. All awards made since 1 November 2010 have been made as nil cost options. There has been no amendment to the original performance conditions, performance, deferred or restricted period as a result of this change.

14 Intangible assets

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
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)	–
Amortisation charge	–	(5.3)	(28.4)	–	(33.7)
Exchange difference	0.4	–	–	–	0.4
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
Year ended 2 April 2011					
Opening net book value	127.9	50.7	154.2	120.0	452.8
Additions	–	–	83.4	43.1	126.5
Transfers	–	–	104.9	(104.9)	–
Disposals	–	–	(0.3)	–	(0.3)
Amortisation charge	–	(5.3)	(45.7)	–	(51.0)
Exchange difference	(0.3)	–	–	–	(0.3)
Closing net book value	127.6	45.4	296.5	58.2	527.7
At 2 April 2011					
Cost or valuation	127.6	80.0	427.1	58.2	692.9
Accumulated amortisation	–	(34.6)	(130.6)	–	(165.2)
Net book value	127.6	45.4	296.5	58.2	527.7

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 3 April 2010	69.5	34.4	15.6	8.4	127.9
Exchange difference	–	–	(0.1)	(0.2)	(0.3)
Cost and net book value at 2 April 2011	69.5	34.4	15.5	8.2	127.6

Goodwill is not amortised, but tested annually for impairment with the recoverable amount being determined from value in use calculations. Goodwill has been allocated for impairment testing purposes to groups of cash-generating units (CGUs) which include the combined retail and wholesale businesses. The key assumptions for the recoverable amount of all units are the long-term growth rate and the discount rate. The long-term growth rate used is purely for the impairment testing of goodwill under IAS 36 – 'Impairment of Assets' and does not reflect long-term planning assumptions used by the Group for investment proposals or for any other assessments. The discount rate is based on the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made: per una discount rate 9.9% (last year 8.6%); Marks and Spencer Marinopoulos B.V. 17.7% (last year 12.9%), Marks and Spencer Czech Republic a.s. 11.9% (last year 10.2%) and Supreme Tradelinks Private Limited 13.3% (last year 12.6%).

The valuations use cash flows based on detailed financial budgets prepared by management covering a three year period. Cash flows beyond this three year period are extrapolated using a growth rate of 2% (last year 2%), which does not exceed the long-term average growth rate for the Group's retail businesses.

No goodwill impairment charges were recognised in 2010/11 or 2009/10. If discounted cash flows for any of the cash-generating units should fall by 10%, or the discount rate was increased by a pre-tax rate of 2%, there would be no impairment.

Brands consist of the per una brand which is being amortised on a straight-line basis over a period of 15 years.

Notes to the financial statements continued

15 Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
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
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)
Exchange difference	(9.8)	(7.5)	0.4	(16.9)
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
Year ended 2 April 2011				
Opening net book value	2,457.7	2,143.1	121.2	4,722.0
Additions	23.1	173.1	168.8	365.0
Transfers	22.4	66.7	(89.1)	–
Disposals	(1.4)	(1.3)	–	(2.7)
Asset write-off	–	(3.4)	–	(3.4)
Depreciation charge	(15.7)	(400.8)	–	(416.5)
Exchange difference	(0.1)	(2.1)	–	(2.2)
Closing net book value	2,486.0	1,975.3	200.9	4,662.2
At 2 April 2011				
Cost	2,730.0	5,263.2	200.9	8,194.1
Accumulated depreciation	(244.0)	(3,287.9)	–	(3,531.9)
Net book value	2,486.0	1,975.3	200.9	4,662.2

The net book value above includes land and buildings of £44.3m (last year £44.7m) and equipment of £31.8m (last year £45.6m) where the Group is a lessee under a finance lease.

Additions to property, plant and equipment during the year amounting to £nil (last year £0.1m) were financed by new finance leases.

16 Investment property

	2011 £m	2010 £m
Cost		
At start of year	22.9	25.3
Reclassification to property, plant and equipment	–	(2.4)
At end of year	22.9	22.9
Accumulated depreciation		
At start of year	(0.5)	(0.5)
Reclassification to property, plant and equipment	–	0.1
Depreciation charge	(0.1)	(0.1)
Impairment charge (see note 5)	(6.3)	–
At end of year	(6.9)	(0.5)
Net book value	16.0	22.4

The investment properties were valued at £16.0m (last year £24.8m) as at 2 April 2011 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 valuation was lower than the carrying value of the investment properties, an impairment charge has been recognised. The Group received rental income of £0.9m (last year £0.9m) in respect of these investment properties.

17 Investment in joint ventures

	2011 £m	2010 £m
At start of year	11.5	13.8
Dividend from joint venture	–	(2.0)
Share of profit/(loss)	1.5	(0.3)
At end of year	13.0	11.5

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.

18 Other financial assets

	2011 £m	2010 £m
Non-current		
Unlisted investments	3.0	3.0
Current		
Short-term investments[1]	209.4	165.0
Unlisted investments	6.5	6.7
	215.9	171.7

1 Includes £148.9m (last year £132.8m) and £44.2m (last year £nil) of money market deposits held by the Marks and Spencer Scottish Limited Partnership and Marks and Spencer plc respectively.

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.

Notes to the financial statements continued

19 Trade and other receivables

	2011 £m	2010 £m
Non-current		
Other receivables	35.2	34.6
Prepaid pension contributions	–	8.0
Prepaid leasehold premiums	240.5	244.7
Other prepayments and accrued income	0.4	0.4
	276.1	287.7
Current		
Trade receivables	99.6	93.2
Less: Provision for impairment of receivables	(1.3)	(4.7)
Trade receivables – net	98.3	88.5
Other receivables	25.5	27.3
Prepaid pension contributions	19.0	55.3
Prepaid leasehold premiums	8.2	8.5
Other prepayments and accrued income	99.3	101.8
	250.3	281.4

Trade receivables that were past due but not impaired amounted to £2.4m (last year £0.7m) and are mainly sterling denominated. The directors consider that the carrying amount of trade and other receivables approximates their fair value.

20 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 0.40% (last year 0.29%); these deposits have an average maturity of nine days (last year five days).

21 Trade and other payables

	2011 £m	2010 £m
Current		
Trade and other payables	919.2	792.2
Social security and other taxes	57.2	79.4
Accruals and deferred income	371.2	282.2
	1,347.6	1,153.8
Non-current		
Other payables[1]	262.3	280.3

1 Includes the fair value of the put option over the 49% non-controlling interest in the share capital of Marks and Spencer Czech Republic a.s. £14.6m (last year £63.5m) exercisable on 4 April 2013.

22 Borrowings and other financial liabilities

	2011 £m	2010 £m
Current		
Bank loans and overdrafts[1]	274.8	249.5
Syndicated bank facility[2]	–	219.8
6.375% £308m medium-term notes 2011[3]	315.1	–
Finance lease liabilities	12.4	13.6
	602.3	482.9
Non-current		
Bank loans	14.3	17.9
6.375% £308m medium-term notes 2011[3]	–	314.6
5.875% £267m medium-term notes 2012[3]	280.2	279.9
5.625% £400m medium-term notes 2014[3]	399.7	399.5
6.250% US$500m medium-term notes 2017[4]	316.8	333.8
6.125% £400m medium-term notes 2019[3]	404.7	403.5
7.125% US$300m medium-term notes 2037[4]	189.3	199.6
6.875% £250m puttable callable reset medium-term notes 2037[3,5]	253.2	253.0
Finance lease liabilities	65.9	76.2
	1,924.1	2,278.0
Total	2,526.4	2,760.9

1 Bank loans and overdrafts includes a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see notes 17 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.

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 six years (last year six years) and 125 years (last year 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.

23 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 receivables and trade payables, 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 on the following pages:

Notes to the financial statements continued

23 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 £nil (last year £220m) 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 £1.6bn) 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	Total £m	Derivative assets £m	Derivative liabilities £m	Total £m
Timing of cash flows								
Within one year	(249.5)	(219.8)	(134.1)	(17.9)	(621.3)	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)	(4,399.4)	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)	(2,760.9)			
Timing of cash flows								
Within one year	(274.8)	–	(439.9)	(16.0)	(730.7)	1,389.3	(1,418.6)	(29.3)
Between one and two years	(14.3)	–	(380.1)	(11.7)	(406.1)	96.5	(92.7)	3.8
Between two and five years	–	–	(650.9)	(15.8)	(666.7)	100.7	(103.7)	(3.0)
More than five years	–	–	(1,992.8)	(195.8)	(2,188.6)	830.2	(883.4)	(53.2)
	(289.1)	–	(3,463.7)	(239.3)	(3,992.1)	2,416.7	(2,498.4)	(81.7)
Effect of discounting and foreign exchange	–	–	1,304.7	161.0	1,465.7			
At 2 April 2011	(289.1)	–	(2,159.0)	(78.3)	(2,526.4)			

This table does not include trade and other payables (see note 21) due to the low associated liquidity risk and the partnership liability to the Marks & Spencer UK Pension Scheme (see note 12).

The present value of finance lease liabilities is as follows:

	2011 £m	2010 £m
Within one year	(12.4)	(13.6)
Later than one year and not later than five years	(17.3)	(26.8)
Later than five years	(48.6)	(49.4)
Total	(78.3)	(89.8)

(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.

23 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]	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

	AAAm £m	AAA £m	AA £m	AA- £m	A+ £m	A[3] £m	Total
Short-term investments[1]	193.1	17.0	54.3	19.1	79.1	–	362.6
Derivative assets[2]	–	0.2	0.5	–	4.0	0.8	5.5
At 2 April 2011	193.1	17.2	54.8	19.1	83.1	0.8	368.1

1 Includes cash on deposit and money market funds in Marks and Spencer Scottish Limited Partnership, Marks & Spencer plc and M.S. General Insurance LP.

2 Excludes derivative asset option which is embedded within the £250m puttable callable reset medium-term notes due 2037 and the embedded derivative within the lease host contract.

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 £98m (last year £89m), other receivables £61m (last year £62m), cash and cash equivalents £470m (last year £406m) and derivatives £40m (last year £181m).

(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 hedges 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 £1,062m (last year £865m) with a weighted average maturity date of six months (last year five months).

Gains and losses in equity on forward foreign exchange contracts as at 2 April 2011 will be released to the income statement at various dates over the following 14 months (last year 13 months) from the balance sheet date.

The Group uses a combination of foreign currency debt and derivatives to hedge balance sheet translation exposures. As at the balance sheet date, €201m and HK$192m of derivatives and €nil (last year €231m) and HK$nil (last year HK$180m) of currency debt were 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 £175m (last year £155m).

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, the liability to the Marks & Spencer UK Pension Scheme and the Marks and Spencer Czech Republic a.s. put option:

			2011			2010
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	2,030.1	411.8	2,441.9	2,064.5	410.0	2,474.5
Euro	7.1	33.7	40.8	8.6	232.8	241.4
Hong Kong dollar	–	–	–	–	15.2	15.2
Other	–	43.7	43.7	3.3	26.5	29.8
	2,037.2	489.2	2,526.4	2,076.4	684.5	2,760.9

Notes to the financial statements continued

23 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 5.9%) and the weighted average time for which the rate is fixed is nine years (last year ten 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 £2,037.2m (last year £2,076.4m) representing the public bond issues and finance leases, amounting to 81% (last year 76%) of the Group's gross borrowings.

The effective interest rates at the balance sheet date were as follows:

	2011 %	2010 %
Committed and uncommitted borrowings	–	0.6
Medium-term notes	5.9	5.9
Finance leases	4.6	4.7

Derivative financial instruments

		2011		2010	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current					
Options	– held for trading	14.4	(14.4)	14.3	(14.3)
Commodity swap	– cash flow hedge	–	–	–	(2.1)
Forward foreign exchange contracts	– cash flow hedges	2.8	(29.9)	30.1	(5.0)
	– held for trading	1.2	(2.4)	3.7	(1.4)
	– net investment hedges	–	(2.7)	–	–
Interest rate swaps	– held for trading	–	(1.3)	–	(4.3)
		18.4	(50.7)	48.1	(27.1)
Non-current					
Cross currency swaps	– cash flow hedges	–	(37.5)	132.8	–
Forward foreign exchange contracts	– cash flow hedges	0.7	–	0.1	–
Interest rate swaps	– fair value hedge	0.8	–	–	
Embedded derivative (see note 5)		20.3	–	–	–
		21.8	(37.5)	132.9	–

During the year the cross currency swaps held to redesignate the Group's fixed rate US dollar debt to fixed rate sterling debt were reset to market values, transferring the asset value of the swaps to the Marks & Spencer UK Pension Scheme as part of the funding plan. The attributes of the new derivatives match the characteristics of the underlying debt hedged with rates of 6.2197% (2017 bond) and 6.88% (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. The Group has 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 £nil (last year £0.4m loss) as the loss on the hedged item was £0.9m (last year £1.5m gain) and the gain on the hedging instrument was £0.9m (last year £1.9m loss). There was no ineffectiveness on cash flow hedging or net investment hedging.

23 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 represent 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 3 April 2010				
Impact on income statement: gain/(loss)	2.5	(8.3)	(15.9)	10.6
Impact on other comprehensive income: gain/(loss)	33.0	(24.7)	29.2	(19.5)
At 2 April 2011				
Impact on income statement: gain/(loss)	0.5	2.2	(2.8)	2.4
Impact on other comprehensive income: (loss)/gain	(6.7)	6.4	44.3	(29.5)

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 embedded derivatives is determined using the present value of the estimated future cash flows based on financial forecasts. The nature of the valuation techniques and the judgement around the inputs mean that a change in assumptions could result in significant change in the fair value of the instrument.

As at the end of the reporting period, the Group held the following financial instruments measured at fair value:

				2011				2010
	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 and loss								
– Trading derivatives	–	15.6	–	15.6	–	18.0	–	18.0
Derivatives used for hedging	–	4.3	–	4.3	–	163.0	–	163.0
Embedded derivatives (note 5)	–	–	20.3	20.3				
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 and loss								
– Trading derivatives	–	(18.1)	–	(18.1)	–	(19.6)	–	(19.6)
Derivative used for hedging	–	(70.1)	–	(70.1)	–	(7.5)	–	(7.5)
Put option over non-controlling interest	–	–	(14.6)	(14.6)	–	–	(63.5)	(63.5)

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 in the current or prior years.

Notes to the financial statements continued

23 Financial instruments continued

The following table presents the changes in Level 3 instruments:

	2011 £m	2010 £m
Opening balance	(60.5)	(53.3)
Additions (see note 5)	20.3	–
Gains and losses recognised in the income statement	48.9	(7.2)
Closing balance	8.7	(60.5)

The gains recognised in the income statement in 2010/11 relate to the valuation of the put option over a non-controlling interest. A discount unwind of £5.4m has been recorded within underlying interest charges, with the fair value movement of £54.3m treated as adjustment to reported profit (see note 5).

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 £2,159.0m (last year £2,183.9m); the fair value of this debt was £2,080.1m (last year £2,107.7m).

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 balanced long-term debt maturity profile. As at the balance sheet date the Group's average debt maturity profile was nine years (last year ten years). During the year the Group maintained an investment grade credit rating of Baa3 (stable) with Moody's and BBB- (stable) with Standard & Poor's.

In order to maintain or realign 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.

24 Provisions

	2011 £m	2010 £m
At start of year	51.1	103.8
Provided in the year	10.8	5.1
Released in the year	(1.7)	(14.2)
Utilised during the year	(15.4)	(43.4)
Exchange differences	(0.1)	(0.2)
At end of year	44.7	51.1

Analysis of provisions:

Current	22.7	25.6
Non-current	22.0	25.5
Total provisions	44.7	51.1

The provisions are primarily comprised of one-off costs related to the strategic restructure in the UK in 2008/09, including onerous leases.

The current element of the provision primarily relates to costs relating to the property exit costs and redundancies.

The non-current element of the provision relates to store closures, primarily onerous leases, and are expected to be utilised over a period of ten years.

25 Deferred tax

Deferred tax is provided under the balance sheet liability method using a tax rate of 26% (last year 28%) for UK differences and local tax rates for overseas differences. See note 7 for details of the changes to the UK corporation tax rate and the impact on the Group.

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 year are shown below.

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 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)
At 4 April 2010	(74.3)	(123.7)	81.2	(3.2)	(120.0)	(5.8)	(125.8)
Credited/(charged) to the income statement	10.5	18.9	3.0	7.1	39.5	(3.2)	36.3
Credited/(charged) to equity	–	–	(112.0)	6.1	(105.9)	(1.1)	(107.0)
At 2 April 2011	(63.8)	(104.8)	(27.8)	10.0	(186.4)	(10.1)	(196.5)

The deferred tax liability on fixed assets is stated net of the benefit of capital losses with a tax value of £65.0m (last year £65.5m). No benefit has been recognised in respect of unexpired trading losses carried forward in overseas jurisdictions with a tax value of £16.1m (last year £8.8m).

In addition, the Group is claiming UK tax relief for losses incurred by some of its current and former European subsidiaries. In light of the continuing litigation no asset has been recognised in respect of these claims.

No deferred tax has been recognised in respect of the temporary differences arising on investments in overseas subsidiaries and joint ventures as the Group is able to control the timing of the reversals of those differences, and it is probable that the temporary differences will not reverse in the foreseeable future. The aggregate temporary difference in respect of these overseas investments is £93.5m (last year £95.7m).

26 Ordinary share capital

	2011 Shares	2011 £m	2010 Shares	2010 £m
Allotted, called up and fully paid ordinary shares of 25p each				
At start of year	1,582,316,581	395.5	1,577,794,919	394.4
Shares issued on exercise of share options	2,547,301	0.7	4,521,662	1.1
At end of year	1,584,863,882	396.2	1,582,316,581	395.5

Issue of new shares

2,547,301 (last year 4,521,662) ordinary shares having a nominal value of £0.7m (last year £1.1m) were allotted during the year under the terms of the Company's schemes which are described in note 13. The aggregate consideration received was £8.4m (last year £12.4m).

Notes to the financial statements continued

27 Contingencies and commitments

A. Capital commitments

	2011 £m	2010 £m
Commitments in respect of properties in the course of construction	90.8	69.0

In respect of its interest in a joint venture (see note 17), the Group is committed to incur capital expenditure of £0.5m (last year £0.9m).

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.

See note 12 for details on the partnership arrangement with the Marks & Spencer UK Pension Scheme.

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.

	2011 £m	2010 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	242.6	228.2
Later than one year and not later than five years	923.0	815.5
Later than five years and not later than ten years	990.8	824.8
Later than ten years and not later than 15 years	767.4	627.6
Later than 15 years and not later than 20 years	402.9	403.2
Later than 20 years and not later than 25 years	243.1	162.1
Later than 25 years	1,210.3	987.6
Total	4,780.1	4,049.0

The total future sublease payments to be received are £65.8m (last year £51.9m).

28 Analysis of cash flows given in the statement of cash flows

Cash flows from operating activities

	52 weeks ended 2 April 2011 £m	53 weeks ended 3 April 2010 £m
Profit on ordinary activities after taxation	598.6	523.0
Income tax expense	182.0	179.7
Finance costs	98.6	162.2
Finance income	(42.3)	(12.9)
Operating profit	836.9	852.0
Increase in inventories	(72.1)	(74.3)
Decrease/(increase) in receivables	2.9	(12.4)
Payments to acquire leasehold properties	(1.4)	–
Increase in payables	175.2	132.5
Non-underlying operating cash outflows	(12.3)	(34.1)
Depreciation and amortisation	467.5	427.9
Share-based payments	31.7	28.5
Pension costs charged against operating profit	60.0	57.3
Cash contributions to pension schemes	(91.2)	(19.6)
Non-underlying operating profit items (see note 5)	(12.0)	(8.1)
Cash generated from operations	1,385.2	1,349.7

Non-underlying operating cash outflows primarily relate to the utilisation of the provision for UK restructuring created in 2008/09.

29 Analysis of net debt

A. Reconciliation of movement in net debt

	At 3 April 2010 £m	Cash flow £m	Exchange and other non-cash movements £m	At 2 April 2011 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 22)	(487.2)	195.5	2.6	(289.1)
Less: amounts treated as financing (see below)	284.1	(199.1)	(2.6)	82.4
	(203.1)	(3.6)	–	(206.7)
Cash and cash equivalents (see note 20)	405.8	65.6	(1.2)	470.2
Net cash per statement of cash flows	202.7	62.0	(1.2)	263.5
Current financial assets (see note 18)	171.7	44.3	(0.1)	215.9
Debt financing				
Bank loans and overdrafts treated as financing (see above)	(64.3)	(18.4)	0.3	(82.4)
Syndicated bank facility (see note 22) (see above)	(219.8)	217.5	2.3	–
Medium-term notes (see note 22)	(2,001.0)	(32.8)	(113.9)	(2,147.7)
Finance lease liabilities (see note 22)	(89.8)	15.7	(4.2)	(78.3)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(67.9)	67.9	(71.9)	(71.9)
Debt financing	(2,442.8)	249.9	(187.4)	(2,380.3)
Net debt	(2,068.4)	356.2	(188.7)	(1,900.9)

B. Reconciliation of net debt to statement of financial position

	2011 £m	2010 £m
Statement of financial position and related notes		
Cash and cash equivalents	470.2	405.8
Current financial assets (see note 18)	215.9	171.7
Bank loans and overdrafts (see note 22)	(289.1)	(267.4)
Syndicated bank facility (see note 22)	–	(219.8)
Medium-term notes (see note 22) – net of hedging derivatives	(2,194.0)	(2,048.2)
Finance lease liabilities (see note 22)	(78.3)	(89.8)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(71.9)	(71.9)
	(1,947.2)	(2,119.6)
Interest payable included within related borrowing	46.3	51.2
Total net debt	(1,900.9)	(2,068.4)

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 2011. 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 2 April 2011, £25.4m (last year £25.4m) was drawn down on this facility. Interest was charged on the loan at 1.1% above 3-month LIBOR. During the year, the Group entered into a rental agreement with the joint venture and £4.5m of rental charges were incurred. There was no outstanding balance at 2 April 2011.

D. Marks & Spencer Pension Scheme
Details of other transactions and balances held with the Marks & Spencer UK Pension Scheme are set out in notes 11 and 12.

Notes to the financial statements continued

30 Related party transactions continued

E. Key management compensation

	2011 £m	2010 £m
Salaries and short-term benefits	12.0	9.6
Post-employment benefits	0.1	–
Termination benefits	–	0.2
Share-based payments	9.0	3.1
Total	21.1	12.9

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 £6.4m during the year (last year £7.2m) with an outstanding trade payable of £0.1m at 2 April 2011 (last year £0.4m). 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 £1.7m) with an outstanding trade payable of £0.8m at 2 April 2011 (last year £0.8m).

Company statement of financial position

	Notes	As at 3 April 2011 £m	As at 3 April 2010 £m
Assets			
Non-current assets			
Investments in Group undertakings	C5	9,179.8	9,168.6
Total assets		9,179.8	9,168.6
Liabilities			
Current liabilities			
Amounts owed to Group undertakings		2,591.8	2,603.5
Total liabilities		2,591.8	2,603.5
Net assets		6,588.0	6,565.1
Equity			
Ordinary share capital		396.2	395.5
Share premium account		255.2	247.5
Capital redemption reserve		2,202.6	2,202.6
Merger reserve		1,397.3	1,397.3
Retained earnings		2,336.7	2,322.2
Total equity		6,588.0	6,565.1

The financial statements were approved by the Board and authorised for issue on 23 May 2011. The financial statements also comprise the notes on pages 108 and 109.

Marc Bolland Chief Executive Officer

Alan Stewart Chief Finance Officer

Company statement of changes in shareholders' equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings £m	Total £m
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
At 4 April 2010	395.5	247.5	2,202.6	1,397.3	2,322.2	6,565.1
Profit for the year	–	–	–	–	250.8	250.8
Dividends	–	–	–	–	(247.5)	(247.5)
Capital contribution for share-based payments	–	–	–	–	11.2	11.2
Shares issued on the exercise of employee share options	0.7	7.7	–	–	–	8.4
At 2 April 2011	396.2	255.2	2,202.6	1,397.3	2,336.7	6,588.0

Company statement of cash flows

	52 weeks ended 2 April 2011 £m	53 weeks ended 3 April 2010 £m
Cash flows from investing activities		
Dividends received	250.8	239.4
Net cash inflow from investing activities	250.8	239.4
Cash flows from financing activities		
Shares issued on exercise of employee share options	8.4	12.4
Repayment of intercompany loan	(11.7)	(15.8)
Equity dividends paid	(247.5)	(236.0)
Net cash outflow from financing activities	(250.8)	(239.4)
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 23 of the Group financial statements.

In accordance with the exemption allowed by Section 408 of the Companies Act 2006, the Company has not presented its own income statement.

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 £698,000 (last year £592,000). 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

	2011 per share	2010 per share	2011 £m	2010 £m
Dividends on equity ordinary shares				
Paid final dividend	9.5p	9.5p	149.7	149.6
Paid interim dividend	6.2p	5.5p	97.8	86.4
	15.7p	15.0p	247.5	236.0

In addition, the directors have proposed a final dividend in respect of the year ended 2 April 2011 of 10.8p per share amounting to a dividend of £171.2m. It will be paid on 15 July 2011 to shareholders who are on the Register of Members on 3 June 2011. In line with the requirements of IAS 10 – 'Events after the Reporting Period', this dividend has not been recognised within these results.

C5 Investments

A. Investments in Group undertakings

	2011 £m	2010 £m
Beginning of the year	9,168.6	9,158.5
Additional investment in subsidiary relating to share-based payments	11.2	10.1
End of year	9,179.8	9,168.6

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. General 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 £250.8m (last year £239.4m) and has decreased its loan from Marks and Spencer plc by £11.7m (last year decrease of £15.8m). The outstanding balance was £2,591.8m (last year £2,603.5m) and is non-interest bearing. There were no other related party transactions.

Key performance measures

	2011 52 weeks £m	2010 53 weeks £m	2009 52 weeks £m	2008 52 weeks £m	2007 52 weeks £m
Income statement					
Revenue [1]					
UK	8,733.0	8,567.9	8,164.3	8,309.1	7,977.5
International	1,007.3	968.7	897.8	712.9	610.6
	9,740.3	9,536.6	9,062.1	9,022.0	8,588.1
Operating profit [1]					
UK	679.0	701.1	755.0	1,095.9	956.7
International	157.9	150.9	115.7	115.4	89.2
Total operating profit	836.9	852.0	870.7	1,211.3	1,045.9
Net interest payable	(93.9)	(160.1)	(199.9)	(141.1)	(130.0)
Pension finance income	37.6	10.8	35.4	58.9	20.8
Profit on ordinary activities before taxation – continuing operations	780.6	702.7	706.2	1,129.1	936.7
Analysed between:					
Underlying profit before tax	714.3	694.6	604.4	1,007.1	965.2
Adjustments to reported profit	66.3	8.1	101.8	122.0	(28.5)
Income tax expense	(182.0)	(179.7)	(199.4)	(308.1)	(277.5)
Profit after taxation	598.6	523.0	506.8	821.0	659.2

		2011 52 weeks	2010 53 weeks	2009 52 weeks	2008 52 weeks	2007 52 weeks
Net margin[1]	Operating profit/	8.6%	8.9%	9.6%	13.4%	12.2%
	Revenue					
Net underlying operating margin		8.5%	8.8%	8.5%	12.1%	12.2%
Basic earnings per share[1]	Basic earnings/	38.8p	33.5p	32.3p	49.2p	39.1p
	Weighted average ordinary shares in issue					
Underlying basic earnings per share[1]		34.8p	33.0p	28.0p	43.6p	40.4p
Dividend per share declared in respect of the year		17.0p	15.0p	17.8p	22.5p	18.3p
Dividend cover	Profit attributable to shareholders/	2.3x	2.2x	1.8x	2.3x	2.1x
	Dividend payable					
Retail fixed charge cover	Operating profit before depreciation and operating lease charges/	4.0x	4.0x	3.5x	5.3x	5.9x
	Fixed charges					
Net debt[2] (£m)		1,900.9	2,068.4	2,490.8	3,077.7	1,949.5

1 Based on continuing operations.

2 Excludes accrued interest.

Shareholder information

Analysis of share register

Ordinary shares

As at 2 April 2011, there were 210,811 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	106,294	50.42	20,940,524	1.32
501 –1,000	41,998	19.92	31,415,804	1.98
1,001 – 2,000	32,201	15.27	46,127,764	2.91
2,001 – 5,000	21,565	10.23	66,141,629	4.17
5,001 – 10,000	5,556	2.64	38,530,292	2.43
10,001 – 100,000	2,587	1.23	59,709,860	3.77
100,001 – 1,000,000	440	0.21	144,481,595	9.12
1,000,001 – HIGHEST	170	0.08	1,177,516,414	74.30
Total	210,811	100.00	1,584,863,882	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	202,200	95.92	285,522,151	18.02
Institutional and Corporate	8,611	4.08	1,299,341,731	81.99
Total	210,811	100.00	1,584,863,882	100.00

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. Their contact details can be found overleaf. Alternatively, shareholders may find the 'Investors' section of our corporate website useful for general queries.

Dividends

Paid in January and July each year. We encourage shareholders to have dividends paid directly into their bank accounts 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 dividend payments in the respective tax year. However, we are able to send separate tax vouchers with each payment, if preferred.

To change how you receive your dividends either log on to shareview.co.uk or contact Equiniti.

Duplicate documents

Around 10,000 shareholders still receive duplicate documentation and split dividend payments due to 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.

If you move house

It is extremely important that you contact Equiniti to inform them of your new address as soon as possible. If you hold 1,500 shares or fewer, and reside in the UK, this can be done quickly over the phone. However, for holdings greater than 1,500 your instruction will need to be in writing, quoting your full name, previous address and new address.

Corporate website

Whether you are interested in learning more about our Heritage, our Social, Environmental and Ethical responsibilities, our approach to Corporate Governance or viewing our latest Press releases, the M&S corporate website provides a wealth of information for shareholders.

If you have a general query regarding your shareholding, it can often be worthwhile making the 'Investors' section of our website your first port of call as it contains much of the information that is most frequently requested from our shareholder helpline. Shareholders are also encouraged to sign up to receive emailed news alerts, which include all financial news releases throughout the year. These are not mailed to shareholders. You can access the corporate website at marksandspencer.com/thecompany.

The directors are responsible for the maintenance and integrity of the financial information on our website. This information has been prepared under the relevant accounting standards and legislation.

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), a charity that specialises in donating unwanted small shareholdings to good causes. This year shareholders helped us donate £60,000, benefiting a variety of charities. You can find out more by visiting sharegift.org or by calling +44 (0)207 930 3737.

Shareholder information

Electronic communication

In recent years, changes in legislation have removed the need for companies to mail endless amounts of paper to shareholders. Instead, companies are turning to the speed, environmental and cost-saving benefits of communicating with their shareholders via the internet. M&S has actively been encouraging shareholders to sign up to this method of communication, as the reduction in printing costs and paper usage make a valuable contribution to our 'Plan A' commitments. It is equally beneficial to shareholders, who can be notified by email whenever we release trading updates for investors to the London Stock Exchange. These are not mailed to shareholders.

Registration is very straightforward through Shareview, the internet based platform provided by Equiniti. For information about how to register, please visit the 'Investors' section of our corporate website.

Shareholder security

REMEMBER: if it sounds too good to be true, it probably is!
It sounds obvious, but if a stranger rings you out of the blue and tries to sell you shares in companies you have probably never even heard of – take great care. They may be part of a financial scam using hard-sell tactics to persuade you to buy shares. 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. Further information can be found at moneymadeclear.org.uk

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

Key dates for your diary

1 June 2011	Ex-dividend date – Final dividend
3 June 2011	Record date to be eligible for the final dividend
13 July 2011	Results – Quarter 1 Interim Management Statement†
13 July 2011	Annual General Meeting (commences 2pm)
15 July 2011	Final dividend payment date for the year to 2 April 2011
8 November 2011*	Results – Half Year†
16 November 2011*	Ex-dividend date – Interim dividend
18 November 2011*	Record date to be eligible for the interim dividend
January 2012*	Results – Quarter 3 Interim Management Statement†
January 2012*	Interim dividend payment date

* provisional dates.

†Those registered for electronic communication or news alerts at marksandspencer.com/the company 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
United Kingdom
Telephone 0845 609 0810
and outside the UK +44 (0) 121 415 7071
marks-and-spencer@equiniti.com
shareview.co.uk

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.

Contact us
email us at chairman@marks-and-spencer.com

Customer queries: 0845 302 1234

Shareholder queries: 0845 609 0810

Index

FSC www.fsc.org RECYCLED Made from recycled material FSC® C002617

This report is printed on Revive Pure uncoated, a 100% recycled paper made from post-consumer collected waste. Revive Pure uncoated is manufactured to the certified environmental management system ISO 14001.

Designed and produced by Radley Yeldar **ry.com**
Printed by Royle Print

MARKS & SPENCER
marksandspencer.com

Read our online Annual Report and How We Do Business Report at marksandspencer.com/annualreport2011