Annual report and financial statements 2013

Only at YOUR M&S

Overview of the year

Financial overview

Group revenue
£10.0bn
↑1.3%*

Underlying Group profit before tax
£665.2m
↓5.8%

Group profit before tax
£564.3m
↓14.2%

Interim + final dividend
6.2p+ 10.8p = 17.0p
→ level

Underlying Group earnings per share
32.7p
↓6.3%

Group earnings per share
29.2p
↓10.2%

UK

Our UK turnover is split between Food (54%) and General Merchandise (46%). With 766 stores across the UK and a growing e-commerce business, we sell high-quality, great value food and remain the UK market leaders in womenswear, lingerie and menswear.

Read more on page 16

General Merchandise revenue
£4.1bn
↓2.4%

Food revenue
£4.9bn
↑3.9%

Number of UK stores
766
↑35 net new stores

Multi-channel

From browsing through to purchase and delivery, we aim to provide the best shopping experience for our customers. Whether in stores, online or by phone, we offer a convenient service for all our customers – however and whenever they choose to shop with us.

Read more on page 26

Multi-channel revenue
£651.8m
↑16.6%

Weekly site visits
3.6m
↑18%

Shop Your Way stores
476
↑21 stores

International

We are making the M&S brand even more accessible to customers around the world. We now operate in 51 territories across Europe, the Middle East and Asia and continue to grow our international presence through a multi-channel approach.

Read more on page 28

International revenue
£1.1bn
↑4.5%*

International stores
418
↑31 net new stores

Territories
51
↑8 new markets

Plan A

We aim to become the world's most sustainable retailer and Plan A, our eco and ethical programme, is at the very heart of how we do business. More than five years since launch, we continue to extend the influence of Plan A – engaging our employees, suppliers and customers.

Read more on page 32

CERTIFIED CARBON NEUTRAL® company

Total Plan A commitments
180

Commitments achieved
139

Commitments on plan
31

*Group revenue and International revenue increases are stated on a constant currency basis throughout the directors' report. Using actual rates Group revenue was up 0.9% and International revenue was up 0.9%.

Online shareholder information
Our online reporting suite keeps shareholders fully up to date, whilst helping us reduce our paper usage.

Over 26,000 shareholders have signed up for electronic communications and are benefiting from more accessible and interactive information. To register, simply go to marksandspencer.com/investors and follow the ‘Electronic Shareholder Communication’ link.

Investor Relations app
The Marks & Spencer Investor Relations app provides investor and financial media information in an iPad-optimised format. The app delivers the latest share price information and corporate news as well as financial reports, presentations and corporate video. For more information visit marksandspencer.com/investors

Plan A
For highlights of our performance against Plan A go to page 32 of this report. More detailed information about the progress we have made this year is available on our online Plan A 2013 report at marksandspencer.com/plana2013

Discover more – go online
The ‘discover more’ logo in this report indicates that we have additional content available on our online version at marksandspencer.com/annualreport2013

Discover more online

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Chairman's statement

"We are implementing revolutionary change in our retailing systems and infrastructure but the values on which M&S was founded remain unaltered."

Robert Swannell
Chairman

DIVIDEND

Interim dividend paid on 11 January 2013
6.2p per share

Final dividend to be paid on 12 July 2013
10.8p per share

Total dividend for 2012/13
17.0p per share

2012/13 was another year of progress for M&S, where a mixed trading performance was balanced by good progress in building our long-term foundations, in line with our key strategic goals.

We are implementing large-scale revolutionary change that spans our supply chain, stores, web platform and IT infrastructure – creating a sound base for sustainable future growth. However, our plans to transform M&S have not altered the values on which we were founded; our commitment to Quality, Value, Service, Innovation and Trust continues to set us apart.

Performance and dividend

In a difficult year, customers continued to place their trust in M&S. We delivered consistently strong results in our Food business, up 3.9%. Our executive team took decisive action to address areas of underperformance in our General Merchandise business and we began to see improvements in our operational execution and a reassertion of our quality credentials.

We made significant improvements to our UK operations: rolling out our new store concept across our estate, opening a new e-commerce distribution centre and strengthening our systems. Our Multi-channel business and our priority International markets grew strongly, supporting our strategic goals.

In line with our dividend policy, we remain committed to delivering consistent returns to our shareholders. This year we intend to pay a final dividend of 10.8p, unchanged from last year.

Governance and the Board

On joining M&S, I set out three clear priorities for the Board and we remain firmly focused on these key aspects. First, to debate and agree our strategy, holding the executive team accountable for its execution. Second, to ensure we have the most talented team to execute our strategy and that we plan effectively for succession. Finally, to set the tone of 'doing the right thing', supported by the appropriate governance structures and their effective implementation.

This year we set out some planned changes to our non-executive team. Having served on the Board since 2006, Jeremy Darroch will retire from the Board in June 2013. I would like to thank Jeremy for his significant contribution to M&S and his strong leadership of our Audit Committee. We welcomed Andy Halford as a non-executive director in January. As Chief Financial Officer of Vodafone for the past eight years, Andy has a wealth of valuable experience and will succeed Jeremy as Chairman of the Audit Committee from June. With continuity in mind, Steven Holliday agreed to stand for re-election at the AGM for a further year, before stepping down at the AGM in July 2014. By this time he will have served on the M&S Board for ten years and chaired the Remuneration Committee for almost five years.

After nine years, Steven Sharp, Executive Director, Marketing, is retiring from M&S. He will step down from the Board following the AGM and will continue to work in the business as Creative Director until 28 February 2014. I would like to thank Steve for the significant role he has played in shaping the M&S brand and reinforcing our quality, style and ethical credentials through numerous iconic campaigns.

As a result of this change, Patrick Bousquet-Chavanne will take over responsibility for marketing and will be put forward for election to the Board as Executive Director, Marketing and Business Development at this year's AGM. Patrick joined M&S in September 2012 as Director of Strategy Implementation and Business Development and has played a key role in the development of the new marketing strategy in womenswear.

Our governance principles

Leadership
Strategy, performance, responsibility and accountability are at the heart of your Board's discussions. We interrogate each area to ensure high-quality decision-making, that in turn drives a culture of continuous improvement across the business.

Read more on page 42

Effectiveness
Our performance is independently reviewed on a regular basis to ensure that the Board remains focused, is provided with actions for improvement and meets targets for future improvement.

Read more on page 44

Accountability
Strategic decision-making is discussed within the context of risk, ensuring that we understand and, where possible, mitigate those risks to which M&S is exposed.

Read more on page 45

Engagement
Building relationships with private and institutional investors is fundamental to achieving our goals. We do so through face-to-face meetings and a range of communications channels.

Read more on page 49

This year, we made internal changes to strengthen our executive team on the Board. John Dixon was appointed as Executive Director of General Merchandise and after 26 years with M&S, has a proven track record in a variety of roles, most recently as Executive Director of Food. Former Director of Retail Steve Rowe is a proven retailer with 23 years' experience at M&S and he has succeeded John as Executive Director of our Food business.

How we do business
The founders of M&S understood clearly the importance of 'doing the right thing' to create long-term value. We continue their tradition of responsible behaviour through our comprehensive environmental and ethical programme, Plan A. To succeed over the long term businesses need to make connections with society and Plan A is our manifestation of that. It also makes sound economic, as well as moral sense.

Values matter in business – and we work hard to maintain high levels of trust and transparency with all our stakeholders – particularly across the supply chain. Operating our business in the right way has benefited us at a time when transparency of supply has never been more important to customers.

Plan A forces us to think differently and accept new ways of doing things. It's also influenced how we do business, enabling us to be open – both inside and outside the Boardroom – about our achievements and equally frank when we fall short of expectations or targets. Over five years since launch, the programme's values remain central to our long-term future and our connection with employees and customers.

Shareholder engagement
Taking shareholders with us on our journey allows them to see clearly the progress we are making. We held a number of investor and analyst events during the year, including a visit to Istanbul to see our international operations at first hand. We also held a briefing on our multi-channel re-platforming, hosted visits to our new flagship store at Cheshire Oaks and our new e-commerce distribution centre at Castle Donington. More recently, we held a briefing on our plans for our General Merchandise business. All of the information shared at these events is available to our shareholders at marksandspencer.com/investors.

As part of our commitment to share our progress, a preview of our forthcoming Autumn/Winter Womenswear collection is enclosed with this report. We have compiled this exclusive edit for our shareholders, which I hope illustrates how we have listened and responded to our customers.

The Notice of Meeting that accompanies this report highlights a change of venue for our AGM. As part of our plan to make M&S a more efficient business, this year's meeting will be held at Wembley, which has the facilities to host all our large-scale events, both internal and external. It is also easily reached by public transport and we encourage all our shareholders, large and small, to attend.

Looking ahead
As we move into the third year of our plan we are fully committed to its execution. Though the retail landscape remains challenging, we are in no doubt that this is the right course.

The fundamental and revolutionary changes taking place to the infrastructure of M&S are essential. Our progress will become increasingly visible to our stakeholders, as customers experience the tangible benefits of the improvements we have made. We are confident that these changes will deliver a more valuable company.

Delivering and executing this level of change requires hard work, perseverance and most of all commitment. I am always impressed by the efforts of our employees – wherever they work in M&S – and I thank them sincerely for their contribution this year.

Robert Swannell
Chairman

Marketplace

Customers are the heart of our business, so it is vital that we understand what they want from M&S. Our Customer Insight Unit (CIU) uses a combination of market research and customer feedback to help us understand how our customers think and identify the factors that influence their shopping behaviour.

Market overview

During 2012/13 there was little economic growth in the UK, with a Gross Domestic Product increase of just 0.3% in 2012. Vacancy rates remained high and over the course of the year a number of well known retailers disappeared from the high street.

Rising energy costs and petrol price increases further squeezed household budgets this year. As the gap between pay rises and inflation widened, incomes were further eroded by benefit cuts and the removal of certain tax credits.

The market was adversely affected by unseasonal weather conditions during 2012/13. The early part of the financial year included three of the wettest months on record and the UK experienced the coldest March in over 50 years.

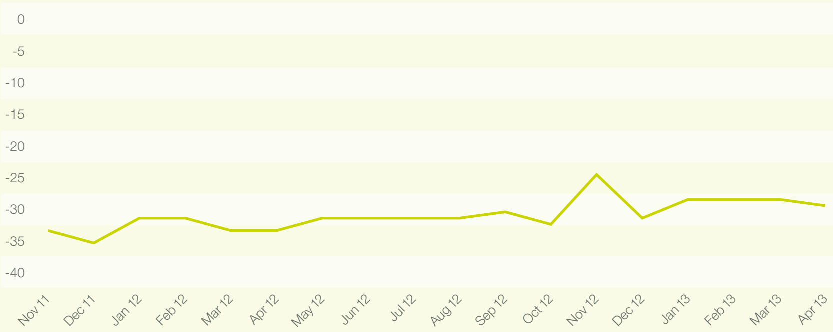
These factors contributed towards a market footfall decrease of 3.7%. Retailers fought hard to win consumers' spend and there were continued high levels of promotional activity on the high street.

There were genuine moments of national celebration during the year and The Queen's Diamond Jubilee and the Olympic Games lifted the nation's mood. However, the feelgood factor they generated proved fairly short-lived and did not translate into higher retail sales.

How is this affecting our customers?

Consumers have become used to navigating choppy economic waters and confidence levels continued to improve as a result. However, high profile administrations – coupled with the ongoing threat of a triple dip recession – meant this confidence remained fragile and a sense of caution prevailed.

Consumer confidence index



Source GfK

With the unique national celebrations finished in the early part of the year, customers attached greater significance to traditional events and family celebrations. They were determined to make these occasions truly special – making their time with friends and family more memorable.

Health and wellbeing also featured prominently in consumer priorities this year. They looked to retailers to help make living a healthier lifestyle more enjoyable and affordable, with less emphasis on dieting and more focus on delicious and nutritious quality ingredients.

Trust was also an important issue within the food industry this year. Customer concerns about transparency and traceability in the meat supply chain prompted a move towards quality food retailers.

Ultimately, consumers wanted to feel every purchase they made was worthwhile – adding genuine value to their lives. As a result, they looked to retailers to inspire them and provide clear reasons to spend.

How are our customers shopping?

With shopping trips restricted and budgets limited, customers told us that they wanted to enjoy their shopping experience, in a stress-free and inspiring environment. They wanted to feel valued by retailers and great customer service was a key consideration for shoppers. As a result, we invested further in our service proposition – delivering new training to our store employees.

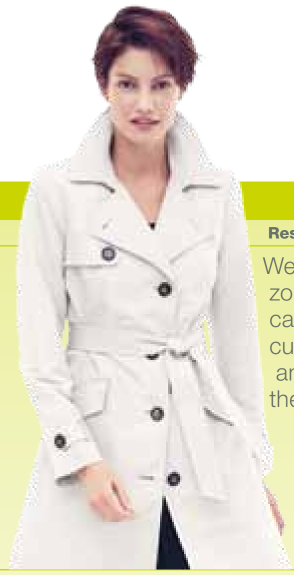
Over the last year, any growth in the market has come from online, as more customers shifted to shopping across multiple channels. As a result, they expected retailers to join up their different shopping channels and provide them with a seamless experience and service whichever way they chose to shop.

The continued growth of smartphone and tablet ownership meant mobile devices became an even more influential browsing and buying tool this year. This growth has not only made it easier for customers to shop on the move but it has also altered their behaviour at home, with the rise of 'second screening'. This trend, whereby more customers are watching TV with a mobile or tablet device in hand, has proved to be a valuable opportunity for retailers to engage directly and provide consumers with reasons to interact with their brand there and then. Our marketing activity responded to this trend, as explained on page 16.

Consumers' purchasing decisions were increasingly influenced by how quickly and easily they could receive their goods. As more retailers launched and improved next day delivery options, customers' expectations were set even higher. Customers now expect flexible and tailored choices for both ordering and delivery as standard and we worked hard to improve our Shop Your Way service, as explained in the Multi-channel section of this report on page 26.

CUSTOMER INSIGHT

"I want every purchase I make to feel worthwhile and really make a difference to me."



How we have responded

Area	Impact	Response
Clothing The clothing market remained flat this year and was impacted by unseasonal weather. Limited consumer budgets, meant womenswear in particular continued to be extremely competitive and very promotionally driven.	Many consumers deferred their shopping trips, deciding to 'make do' with their existing wardrobe, unless they were presented with compelling reasons to buy.	We established eye-catching 'trend zones' aligned to our advertising campaigns in stores, giving customers ideas on outfit building and enabling them to clearly identify the right products for them.
Home The static housing market meant sales of big-ticket items such as furniture remained depressed. Consumers increasingly used stores as 'try before you buy' showrooms to make purchasing decisions, but used online methods to purchase – avoiding additional distractions.	With continued emphasis on family and socialising at home, customers looked for inspiration and affordable style, as their focus remained on smaller-scale projects to refresh and update their homes.	Our new inspirational roomset layout delivered a real wow factor in stores, showcasing statement pieces of furniture, homeware and accessories from our collections. We also featured stylish room ideas on our website, Home catalogue and on the new M&S Home iPad app. Furniture sales increased as a result.
Food Driven by commodity and fuel price increases, inflation continued to be the principal factor affecting the food market. Competition amongst retailers remained intense, with high levels of promotional activity. In the wake of the supply chain issues, trust and traceability became a priority for customers.	Customers continued to demand good value food, but also expressed renewed commitment to healthy eating, particularly in the New Year. They looked for a stress-free shopping experience, with clear promotions and quality they could trust.	Our Simply M&S range caters for customers seeking affordable quality and we continued to extend our Health offer, with a brand new range – Delicious and Nutritious. Our reputation for exceptional food provenance served us well this year and we reminded our customers of our longstanding relationships with British farmers who share our values and commitments.
Brand In a challenging market, dependable established brands continued to benefit. The well publicised issues in the food supply chain further fuelled a migration towards quality, trusted brands.	With a limited budget available – consumers turned to brands they trusted to deliver genuine quality. They wanted every purchase to make a difference to their lives.	Our marketing activity highlighted the quality and innovation that sets M&S apart – both in Food and Clothing. We used a broader variety of models so customers could see how the latest styles would make a difference to their wardrobes. Our food campaigns showed how M&S Food can make ordinary occasions special.
Multi-channel This year online and mobile channels continued to play an increasingly important role in influencing shoppers and determining their purchasing decisions.	Customers were looking for integrated, effortless shopping experiences that allowed them to make well-informed choices and buy in the way that suits them best.	This year we better integrated our shopping channels – bringing the latest digital technology into our stores. We launched our first transactional iPhone app and added new browse and order points to our stores. We rolled out over 1,500 iPads to our employees – helping to offer a more personalised service.

Marketplace continued

International marketplace

GDP continued to grow in our priority markets of Russia, the Middle East, India and the Shanghai region of China. Trading conditions continued to be challenging across the Eurozone, particularly in Greece, Spain and the Republic of Ireland.

We believe most trends are global and our UK catalogue is the core of our international offer. Careful editing ensured that our collections remained relevant to the slightly younger age profile of our international customers. We also responded to a variety of international demand trends including increasing local garment sourcing in India. This has resulted in faster speed to market, improved margins for us and better choice and fit for the customer. We also introduced better phasing of outerwear in Russia to capture the market earlier in the season when demand is highest.

Our British heritage and brand values are key assets for M&S in international markets. A heightened appetite for all things 'British' was particularly apparent this year, as global attention focused on The Queen's Diamond Jubilee and the London Olympics. These events presented us with the ideal opportunities to showcase the best of M&S and differentiate ourselves from local competitors.

↑ Plan A participation

This year we continued to extend our influence beyond M&S. More customers than ever took part in a variety of Plan A activities.

→ Highlighting our credentials

The M&S brand is synonymous with British style. Our Golden Bell store in Shanghai carried a range of exclusive products that showcased our UK heritage.

As part of our strategy to become an international multi-channel retailer, we launched websites in Germany, Spain, Austria and Belgium, extending our reach into the some of the fastest growing online fashion markets in Europe. Making the most of London's status as an international fashion capital, the launch was themed around showcasing the very best of 'London style' – from our catwalk-influenced Limited Collection to the craftsmanship of our Savile Row Inspired tailoring. M&S' British heritage will continue to play a leading role in our international marketing activity.

How Plan A helps us respond

Plan A – our eco and ethical programme – sets us apart as a leader in the marketplace and helps us tackle the sustainability issues that face all major retailers.

With key raw materials and natural resources under increasing pressure, we continued to develop a more sustainable supply chain, focusing on areas such as cotton and sustainable fishing. Our long-established strict sourcing standards meant M&S did not need to withdraw any products as a result of the supply chain issues.

In a challenging economic environment, Plan A also helps us to run a more efficient business, through reducing waste and energy use. We continued to share our experiences with suppliers – enabling them to reduce their own manufacturing costs and create a more sustainable future.

This year we launched new ways to engage our customers in Plan A, with exciting initiatives such as Shwopping and our Big Beach Clean-Up.

Looking ahead

Customers are pragmatic about the future, realising that economic recovery is still some way off. However, they are gaining increasing confidence, thanks to their ability to manage through these difficult times and remain focused on spending wisely and well with retailers they trust.

How our business operates

Over the last 129 years M&S has grown from a single market stall to become an international multi-channel retailer. We now operate in over 50 territories worldwide and employ almost 82,000 people. Remaining true to our founding values of Quality, Value, Service, Innovation and Trust, we work hard to ensure our offer continues to be relevant to our customers. Through diversifying our store locations, channels and product ranges we are reducing our dependence on the UK and broadening our international focus.

In touch

Customers are at the heart of our business and through our Customer Insight Unit, we ensure their needs inform every aspect of our decision-making. Through a combination of customer feedback, focus groups and consumer research we are in touch with over 17,000 customers every month, helping us anticipate their needs.

What we offer

Our heritage of innovation helps us lead the way with first-to-market products across food, fashion and homeware. We are the UK's leading clothing retailer and offer high-quality food, with a focus on freshness, convenience and speciality. Our own-brand model sets us apart and we further differentiate our offer through exclusive collaborations.

Reaching our customers

Our products are sold through 766 UK and 418 international stores – in diverse locations across high streets and out of town retail parks. Our Simply Food franchise partnerships ensure we are in the most convenient locations – from railway stations to motorway services. As shopping habits change, we're combining the best of web and store to extend our reach and drive more spend from customers. In-store technologies help customers shop more of our catalogue and our newly-created app enables browsing and buying for shoppers on the move – making M&S available 24/7.

Investing in our people

We communicate with our people throughout the year via a range of channels and measure employee engagement quarterly. All our training and support activities are closely linked to our business plans; from improving employee skills and product knowledge to the development of future leaders for M&S.

Innovative ways of working

Ongoing improvements to our operations are making us more efficient. Our restructured supply chain has improved our stock management and availability and our e-commerce distribution centre and new IT platform will strengthen our ability to deliver growth. The creation of a long-term sustainable business model for M&S through Plan A lies at the heart of the way we work.

Managing risk

Effective risk management is essential to the achievement of our strategic objectives – and a key consideration in our Board's deliberations. In evaluating risk, we consider external competitor and economic factors, our core day-to-day operations, business change activity and potential future risks. Mitigating activities to address these are detailed in the Accountability section of this report.

M&S business model

Chief Executive's overview

"We have made good progress as we transform M&S from a traditional British retailer into an international, multi-channel retailer."

Marc Bolland
Chief Executive

REVENUE

General Merchandise
£4.1bn
↓2.4%

Food
£4.9bn
↑3.9%

Multi-channel
£651.8m
↑16.6%

International
£1.1bn
↑4.5%

In a difficult marketplace M&S performed well, with sales up 1.3%. Our Food business delivered an excellent performance, as we strengthened our position as a specialist retailer and benefited from customers' ongoing trust in our provenance and innovation. Our GM performance was unsatisfactory but we took action and have set out a clear plan for improvement. Our International business performed well and M&S.com delivered strong growth.

We continued to steer the business through the challenges of today's market, remaining focused on our plan to transform M&S from a traditional British retailer into a leading international multi-channel retailer. At the end of the second year of our plan, this strategy remains as, if not more, relevant. Over the last 12 months, we have driven our plan with real momentum.

General Merchandise
Clothing sales were not satisfactory this year and we took decisive action to improve performance. A new team was appointed to manage the business under John Dixon's leadership, supported by Belinda Earl in the newly created role of Style Director.

Having improved our operational execution and stock management, our customers benefited from better availability. In a highly promotional market, our tactical offers on selected products were well-received.

We have a clear plan to address our performance, with a renewed commitment to quality and style. These improvements are reflected in our upcoming Autumn/Winter collections and our progress will continue step by step.

Food
Our Food business delivered a strong performance throughout the year, up 3.9%. Like-for-like sales were consistently ahead of the market, driven by our trusted quality, provenance and ongoing innovation, which saw us refresh 25% of our entire range. M&S remains the destination of choice for special occasion food. Customers put M&S food at the heart of their celebrations, resulting in a record Christmas and our best ever Easter performance.

The launch of our Simply M&S range, coupled with our well-targeted offers, helped value conscious customers do more of their regular shop with M&S. Greater employee 'ownership' of zones in our Food Halls enhanced customer service and our improvements to space, range and display delivered better on-shelf availability.

Stores
Our new store concept has now been implemented in over two-thirds of our stores – giving customers a clearer, more inspirational in-store environment. This year we started the second phase of our store transformation – which included the roll-out of our new M&S Beauty and Home concepts.

Our plan

By 2015	Drive UK like-for-like growth	International multi-channel retailer	Drive international presence
2012–2013	UK space and like-for-like growth	A leading UK multi-channel retailer	International company
	Focus on UK		**Brand** **Clothing** **Home** **Food** **Stores**

Both departments performed very well and feature the latest in multi-channel thinking – driving customer engagement and increased sales. In August 2012, we opened our flagship store at Cheshire Oaks, which brought together all the elements of our new store format under one roof for the first time.

Multi-channel
M&S.com sales accelerated this year and grew ahead of the market at 16.6%. Through a combination of better site navigation, more style advice and greater choice, we increased weekly visitors to 3.6 million. We further improved our popular Shop Your Way option, with free next day delivery to stores and provided customers with more inspiration and choice through the introduction of new in-store technologies. We also launched several brand new ways to shop with M&S, including our first ever transactional iPhone app.

International
International sales were up 4.5% this year. We saw double digit growth in our priority markets but experienced more challenging conditions in our legacy European markets. We expanded our presence with a multi-channel approach, opening 45 stores and putting M&S online locally in a total of ten territories, following the launch of new websites. Enhanced visual merchandising in our stores improved the clarity and consistency of the M&S brand and we made a number of improvements to our international operations. We also strengthened our franchise relationships and provided additional marketing support to our partners.

↑ Our greenest ever store
Plan A ambassador Joanna Lumley joined us for the opening of our greenest ever store at Cheshire Oaks. As well as establishing leading eco credentials, it created more than 350 jobs in the area.

Discover more online

Brand
Our brand is one of our strongest assets and our advertising campaigns reflect how we are in touch with our customers' changing needs. This year, we used a selection of models representing a range of ages and sizes; better reflecting our customer base and showing our customers how to wear the season's key looks. Towards the end of the year, our Perfectly campaign featured an edited collection of iconic products from our womenswear range. We bought with confidence into these advertised lines and sales increased as a result.

Our recently launched Make Today Delicious campaign encourages customers to make every food moment special with our innovative, quality food.

Plan A
We believe our customers are the driving force for change and over five million customers participated in Plan A activities this year. We stepped up our efforts to engage them in more sustainable living through a range of initiatives including Shwopping, which has already helped divert 3.8 million garments from landfill, and our Big Beach Clean-Up. Our five year anniversary in 2012 marked a major milestone in our journey but we have renewed our efforts to fulfil and exceed our own commitments. We also worked to extend our influence and share our learning beyond M&S – to our customers, suppliers and the wider industry.

Transforming our business
To fulfil our international, multi-channel ambitions, it is essential we have the infrastructure and organisational capabilities to drive this growth. Since we launched our plan to transform M&S, we have made considerable progress. We now have a stronger organisational structure and a rich pool of talent across the business. As Alan Stewart explains on page 34, we have significantly enhanced our supply chain operations with the opening of our first dedicated e-commerce distribution centre at Castle Donington. We have also made good progress with our systems upgrades and our new multi-channel platform build is on schedule for launch next spring.

Marc Bolland
Chief Executive

Looking ahead
The market will remain challenging for the foreseeable future and we expect consumer spending to remain cautious and carefully planned. However, our attention to delivering exceptional quality and market-leading innovation means we are well positioned to navigate through the short term.

We remain fully committed to the delivery of our plan; ensuring that as we evolve we remain in touch with our customers so that we can anticipate and respond to their changing needs.

Our transformation of M&S into a leading multi-channel retailer will be supported by the creation of stronger, more agile infrastructure – building a robust platform for our long-term growth.

Please turn over the page to see the highlights of our plan in action.

Our plan in action

Our aim is to make M&S a truly international, multi-channel retailer – accessible to even more customers around the world. We have created considerable momentum through a wide range of activities and are making good progress.

Focus on the UK

Read more on page 16

→ Trusted food
In a year when trust was more important than ever, customers turned to M&S for great quality, responsibly sourced food. Our innovation kept them coming back – with over 1,900 new lines launched this year.

1,900

→ Cheshire Oaks
Every aspect of the new M&S format comes together at our new store. Showcasing all our products in a visually stunning environment, the store boasts impeccable green credentials and has performed well ahead of plan since launch.

Multi-channel

Read more on page 26

← Online sales
More people than ever chose the convenience of shopping with us online. Improved navigation, greater choice and exclusive ranges and offers boosted online sales by 16.6% this year.

← Free next day delivery
Shop Your Way orders increased this year, after we introduced free next day delivery to our stores. 54% of orders are now collected or placed in a store.

54%

International

Read more on page 28

→ Multi-channel expansion
We are building our European presence through a 'clicks & bricks' approach. Complementing our French website, we launched Shop Your Way at our two Paris stores. We have two additional full line stores due to open in 2013.

→ New stores
M&S has a clear and targeted strategy for international growth. We continue to expand in key locations across our priority markets, employing a mix of ownership models including partnerships and franchises.

45 new stores

Plan A

Read more on page 32

CERTIFIED CARBON NEUTRAL® company

↙ CO_2 neutral
We were proud to retain our status as a certified CarbonNeutral® company across our operations in the UK and Republic of Ireland. We are actively developing programmes aimed at encouraging our suppliers to reduce their greenhouse gas emissions.

← Plan A products
45% of our products now have a Plan A quality – such as Fairtrade, organic or made from recycled material. We're making good progress against our target of making this 50% of products by 2015.

45%

→ Perfectly edited
Our Perfectly campaign brought together a carefully edited collection of the iconic quality wardrobe staples that set M&S apart. Each ad offered easy style advice, showing different ways to wear these key items.

→ New Home concept
With clearer segmentation and a more multi-channel approach our new M&S Home concept drove a reappraisal of the offer. The new format is now featured in 33 stores.

← Castle Donington
Our fully mechanised 900,000 sq ft e-commerce distribution centre is the UK's largest. It has the capacity to process and ship up to a million products per week to customers' homes and M&S stores across the country.

← iPhone app
Sales via mobile increased 200% this year, following the launch of our first transactional iPhone app. It had received over 580,000 downloads by the year end.

→ Golden Bell
The Shanghai region is one of our strategic international markets. We expanded our presence here with the opening of our 4,500 sq m flagship store at Golden Bell Plaza – one of the region's most popular shopping destinations – giving us a total of 14 stores.

→ Reaching more customers
We are extending our reach across new and existing markets through our online development. Following launches in Germany, Spain, Austria and Belgium, we're now online locally in ten markets and deliver to over 80 countries.

2012 WORLD RETAIL AWARDS WINNER

← Responsible Retailer of the Year
In recognition of the scale of our eco and ethical programme's achievements, M&S was named Responsible Retailer of the Year at the World Retail Awards in September 2012.

← Zero waste to landfill
We continue to work at reducing the amount of waste produced within the business. Working closely with our contractors, we fulfilled our commitment of sending no waste to landfill from our UK stores, office, warehouses and construction activities.

Performance against our plan

Key Performance Indicators

Financial performance

Group revenue

£10.0bn
↑ 1.3%

£m	09/10	10/11	11/12	12/13
UK	8,567.9	8,733.0	8,868.2	8,951.4
International	968.7	1,007.3	1,066.1	1,075.4
Total	9,536.6	9,740.3	9,934.3	10,026.8

Underlying Group profit before tax

£665.2m
↓ 5.8%

£m	09/10	10/11	11/12	12/13
UK operating profit	701.2	677.9	676.6	661.4
International operating profit	142.7	147.0	133.4	120.2
Net finance costs	(149.3)	(110.6)	(104.1)	(116.4)
Underlying Group profit before tax	694.6	714.3	705.9	665.2

Focus on the UK

UK market share
Clothing and footwear

Value
11.2%
↓ 0.4% pts

Volume
12.0%
↓ 0.3% pts

Analysis We remain the UK's market leader in clothing but have experienced a decline in market share this year. We have set out a clear plan to address our underperformance, reasserting our quality and style credentials.

Kantar Worldpanel Clothing and Footwear share 52 w/e 14 April 2013.

UK market share
Food

Value
3.8%
Level

Analysis In a competitive market, our food market share remained level, as customers continued to trust M&S for responsibly sourced, quality food.

Kantar Worldpanel Food and Drink 52 w/e 14 April 2013.

Average weekly footfall

20.0m
↓ 1.5%

12/13	20.0m
11/12	20.3m
10/11	20.7m
09/10	21.0m

Analysis Visits to our stores were down slightly in 2012/13. However, this was in line with the wider market trend, as customers increasingly adopted a more multi-channel approach to shopping. Concerns about rising petrol prices also impacted footfall to stores.

Become a leading multi-channel retailer

Multi-channel revenue

£651.8m
↑ 16.6%

11/12	£559.0m
10/11	£473.6m
09/10	£366.1m

Analysis As we strengthen our multi-channel capabilities, we continue to make progress against our target to increase sales by £300m to £500m by 2013/14.

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

93%
→ level

Analysis To deliver a more multi-channel shopping experience we want to have our stores in accessible locations and aim for 95% of the population to be within a 30 minute drive of a full line store by 2015.

Plan A

Our operations
UK & ROI greenhouse gas emissions Gross (000 tonnes)

2012/13
569
↓ 23%

2006/07	735

Why? Reporting greenhouse gas emissions will become a legal requirement from 2014. Reducing emissions improves efficiency and helps to respond to the risks of climate change.

UK & ROI greenhouse gas emissions Gross tonnes per sq ft of salesfloor

2012/13
34
↓ 37%

2006/07	54
2012 target	35

Why? Reporting greenhouse gas emissions per sq ft of salesfloor enables us to monitor improvements in efficiency.

Group profit before tax

£564.3m
↓ 14.2%

11/12	£658.0m
10/11	£780.6m
09/10	£702.7m

Underlying earnings per share

32.7p
↓ 6.3%

11/12	34.9p
10/11	34.8p
09/10	33.0p

Group earnings per share

29.2p
↓ 10.2%

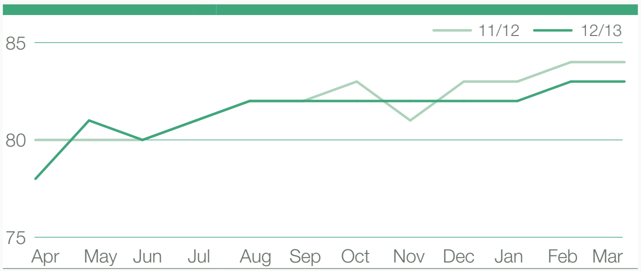
11/12	32.5p
10/11	38.8p
09/10	33.5p

Return on capital employed

15.9%
↓ 3.0%

11/12	16.4%
10/11	16.7%
09/10	17.5%

UK Mystery Shopping scores



Average score
81%

Analysis Mystery Shop scores remained high this year at 81%. However, to help us be more in touch with customers we plan to replace our monthly Mystery Shop programme with a more regular, in-depth customer satisfaction survey.

Annual space growth

2.8%

Analysis As consumers' shopping habits change, we continue to evolve our space selectively. We expect the planned opening of new space will add c.2% to the UK in 2013/14.

Become an international company

International revenue

£1,075.4m
↑ 4.5%

11/12	£1,066.1m
10/11	£1,007.3m
09/10	£968.7m

12/13	**£1,075.4m**
11/12	£1,066.1m
10/11	£1,007.3m
09/10	£968.7m

Analysis We are continuing to transform M&S into a more internationally focused business and are making progress against our target of increasing international sales by £300m to £500m by 2013/14.

Our products
Percentage of M&S products with a Plan A quality

2012/13
45%
↑ 14%

2011/12	31%
2015 target	50%

Why? Plan A qualities have been carefully chosen to be appealing to customers, improve efficiency or make our supply chains more resilient.

Our people
Employee engagement scores

2012/13
78%
↑ 2%

2011/12	76%
Ongoing target	70%

Why? There is a strong correlation between high levels of engagement and performance and as a result, we aim to maintain engagement levels of above 70%. We continue to use a variety of communication channels to ensure that employees are engaged in our strategy and understand the role they play.

People behind the plan

Management Committee

"We depend on our people to make the M&S difference. I'd like to thank all our employees for their hard work, enthusiasm and commitment, in what has been a challenging year."

Marc Bolland
Chief Executive

This year we strengthened our Management Committee in order to sustain momentum in the delivery of our plan. Our executive team is ably supported by a group of high calibre individuals, whose credentials have been earned both within M&S and externally. I'm proud of the team that is driving our transformation of M&S forward.

The dedication and enthusiasm of all our people drives innovation across M&S and upholds the high standards of quality and service our customers expect. Their expertise and commitment was increasingly acknowledged and appreciated by our customers this year. Each employee plays a part in keeping M&S special and I offer my sincere thanks for all their efforts.

Marc Bolland
Chief Executive

John Dixon
Executive Director, General Merchandise

Our new team listened carefully to customers and acted decisively in response to their comments. We are reasserting our style credentials and have created a confident, edited collection of the latest looks for the new Autumn/Winter season. We are also reasserting our quality credentials, with a renewed focus on delivering beautifully made clothing with a flattering fit.

Steve Rowe
Executive Director, Food

In a year when trust has never been more important, we continued to deliver the exceptional quality food customers expect from M&S. Whilst they continued to depend on us for celebrations, we know that great food can make any occasion special. So we brought M&S' delicious food to the heart of everyday occasions – helping customers do more of their weekly shop with us and inspiring them with new ideas.

Steven Sharp
Executive Director, Marketing

The unique level of trust our customers place in the iconic M&S brand has made it one of our strongest assets. Keeping in close touch with customers enables us to understand what matters most to them. With such a broad customer base, it's important that we ensure our campaigns stay relevant and inspiring – highlighting the fact that, at M&S, we offer something for everyone.

Alan Stewart
Chief Finance Officer

This year we maintained our focus on careful cost management across the business and continued to look for new, more efficient ways of doing things. We continued to invest in the transformation of M&S into an international, multi-channel business and we are changing our infrastructure to create a robust platform for long-term sustainable growth.

Laura Wade-Gery
Executive Director, Multi-channel E-commerce

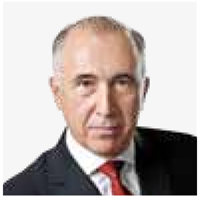
Consumers' shopping habits are changing and we're changing with them. We continued to provide new and exciting ways for our customers to browse and buy, showcasing the very best of M&S' ranges and making more product available. By creating user-friendly experiences that are quick, convenient and inspiring, we've made it easier for customers to shop in the way they want with M&S.

Andy Adcock
Trading Director, Food

Our priority is to give our customers the products they want, when they want them. During the year we worked hard to increase availability in our Food Halls and delivered a greater choice of product through better ranging and display. These improvements are supported by our informed shop-floor employees – who share their knowledge of M&S Food's quality and innovation with our customers.

Sacha Berendji
Retail Director

In a challenging trading environment, great customer service matters more than ever. We've worked hard to equip our employees with the knowledge and skills they need to help customers, bring our new store format to life and provide a great shopping experience. We've also improved the way we obtain customer feedback, enabling us to understand more of what matters to them and respond faster.



Patrick Bousquet-Chavanne
Corporate Director of Strategy Implementation and Business Development

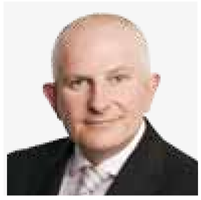
Innovation is one of the values upon which M&S was founded. We are constantly looking at new and exciting ways to enhance our offer across our Fashion, Home and Food ranges. Our clear focus on creating original products, unique experiences and new global retail concepts will ensure we maintain our reputation for innovation – maximising the impact and value of the M&S brand.

Clem Constantine
Director of Property

We aim to ensure that our stores are in the most convenient locations possible for our customers. Our approach is to create and develop true community stores with sustainability incorporated as standard – as exemplified by our new Cheshire Oaks flagship store. Our successful Simply Food format is increasingly popular and is an important part of our estate development programme.

Tanith Dodge
Director of Human Resources

We are focused on ensuring we have the right people with the appropriate skills to help us achieve our ambitions. This includes developing talent and building the right capabilities across the business to steer M&S in the future. We use a variety of communication channels to maintain dialogue and ensure that each employee is engaged in our plan and understands the role they play.



Steve Finlan
Director of International Operations

We are now operating as a more international business. Combined with central planning, we use local knowledge of customer preferences to inform our buying decisions. This has enabled us to deliver a clearer and more appropriate product offer. Improved visual merchandising and our new store format are also creating a better, more consistent shopping experience for M&S customers around the world.

Dominic Fry
Director of Communications and Investor Relations

As we continue to execute our plan for M&S, we want all our stakeholders to be part of the journey. We stepped up our levels of shareholder engagement this year, enabling many of our investors to see at first hand the progress we're making, both in the UK and internationally. We are also committed to increasing the amount of company information we make available online to our stakeholders.

Jan Heere
Director of International

We have a clear plan to drive growth in our priority markets. Our multi-channel approach enables us to apply exactly the right model to each market, building positions of authority wherever we operate and strengthening relationships with our franchise partners. Our plan is being delivered by a best in class international team comprising externally-sourced talent and proven M&S expertise.

Dirk Lembregts
Director of Supply Chain

M&S' supply chain is the backbone of our business. This year we continued our investment in the creation of more efficient operations across the M&S supply chain. These will help us meet – and exceed – our customers' heightened expectations as the business continues to grow. The progress we have made this year will deliver significant improvements in the way we serve our customers.

Nayna McIntosh
Director of Store Environment and Product Presentation

Our new-format store environment is designed to inspire and delight our customers, prompting them to take a fresh look at M&S. Our new in-store trend zones – showcasing the season's latest looks – give a great first impression and we use elements of theatre to enhance the look of our Food Halls. Our new M&S Beauty and Home departments have further strengthened our position as a specialist retailer.

Amanda Mellor
Group Secretary and Head of Corporate Governance

We believe that trust is established and maintained by doing things in the right way. At M&S, effective governance derives from a balance between leadership and collaboration – and we work hard to ensure this applies to all the decisions we make. Trust is cemented further through increased transparency and we have continued to become more open – both in the information we provide and the way in which we report it.

Darrell Stein
Director of IT

Our IT infrastructure supports the whole of M&S, touching every employee across the business. This year we improved processes and drove greater efficiency through the business, embedding new Food and HR systems. We continue to create solutions that give us the necessary flexibility to meet our strategic goals, and will launch new General Merchandise systems and a multi-channel platform in the year ahead.

Our brand

“Our brand is one of our strongest assets; inspiring trust from customers.”

Steven Sharp
Executive Director, Marketing

Our campaigns demonstrate that we are in touch with our customers – making M&S relevant to their changing needs. In an increasingly competitive landscape, our marketing activity focused on the innovation and quality that make our products different and special – providing a clear reason to shop with M&S. By better integrating our marketing channels we helped put M&S front of mind for customers – however they chose to interact with us.

In touch with our customers
With disposable incomes under continued pressure, enjoying time with friends and family remained our customers’ top priority. They were determined to get the most from their limited spend – but this was not simply about price – customers wanted to feel every purchase was worthwhile. As a result, they sought inspiration from M&S on how to make the ordinary feel extra special and make time together more meaningful.

With this in mind, we launched Weekends In, a new umbrella promotional campaign, which offers customers a different delicious deal to enjoy every weekend. Our iconic Dine In offer sits under this banner, and is alternated with deals such as Roast for £5 and Chinese Takeaway for two – putting M&S food at the heart of the weekend.

Spotlight on products
Our Autumn/Winter campaigns were both aspirational and inclusive – showcasing our products using a representative range of models of different shapes, sizes and ages. With the spotlight firmly on our product offer, the campaign helped inspire customers as to how they could wear the season’s latest styles. Sales of featured lines were three times higher compared to the corresponding four weeks of the 2011 TV campaign.

Our Christmas campaign continued the theme of inclusivity – demonstrating how M&S offers something for everyone. Featuring the strapline The Greatest Hits this Christmas, the campaign took inspiration from the popular Christmas compilation album format and used a selection of popular tracks to highlight the seasonal products M&S is known and loved for – from cosy knitwear to stylish party outfits.

Our Spring ‘Perfectly’ campaign showcased the quality fabrics, unique innovations and expert design that set M&S wardrobe staples apart. Featuring iconic pieces such as our timeless £39.50 belted mac and a curve flattering crisp white shirt – each ad displayed different ways to wear these classic items – providing stylish yet affordable fashion inspiration.

Our Food campaigns concentrated on the outstanding quality and innovation that makes M&S Food famous – showing customers exactly why they can trust M&S for even the most important occasions. Our delicious products took centre stage to highlight how M&S can offer something different and make celebrations truly special. The miniature Belgian chocolate hot cross buns featured in our Easter ad sold out over Easter weekend.

Interacting with customers
This year, we used the latest technologies to help us create fully integrated campaigns that reflect customers’ changing behaviour. Our growing social media presence and the launch of our first mobile app helped us further join up our different channels to engage and inspire our customers.

↓ **Food Glorious Food**
In February we joined ITV’s Food Glorious Food on a mission to find the nation’s favourite recipe. Hosted by Carol Vorderman, a team of experts travelled the UK in search of the very best home cooked recipes. Chosen by viewers, the winning dish was Rahila Hussain’s Fragrant White Chicken Korma, which was sold exclusively by M&S, with 40p from each sale going to Great Ormond Street Hospital.

Food Glorious Food

↑ **Integrated campaigns**
We provided a compelling reason for the many customers who watch TV with a mobile or iPad in hand to interact with M&S, with a TV ad that offered the chance to win £5,000 by naming the artists in our Christmas campaign. Over 32,000 customers entered via social media, causing #greatestHits to become the second highest global trending phrase on Twitter.

Womenswear
Our Autumn/Winter campaign used models of a broader representation of shape and size to give customers inspiration.

M&S Bank
With over 25 years in personal finance, the creation of M&S Bank was a natural step. Combining exclusive M&S rewards, a transparent account structure and the convenience of store opening hours – M&S Bank was designed around our customers.

TRUST

CUSTOMER INSIGHT

"I want to see exactly how I can wear the season's latest styles."

Thanks a million
Achieving a million Facebook fans highlighted the iconic status of M&S and the unique level of engagement we have with our customers. We celebrated by giving every fan a penny to donate to charity and publicised the milestone with a specially commissioned art installation made from a million pennies borrowed from the Bank of England.

Shwop shop
Inspiring a new generation of Shwoppers to see fashion and sustainability as one, we launched the first-ever pop-up Shwop shop at our Marble Arch store. Featuring items including rare vintage M&S pieces donated by the public and celebrities alike, the two-day event raised £4,000 for Oxfam.

Discover more online

Looking ahead
In the year ahead we will stay in ongoing dialogue with our customers to ensure we are in tune with their changing priorities. We will continue to provide new and compelling reasons to shop with us by highlighting the unique products available only at M&S.

General Merchandise

"We're reasserting our quality and style credentials to give all our products the M&S difference."

John Dixon
Executive Director, General Merchandise

This year we took decisive action to address the performance of our General Merchandise business; bringing in a new team, listening carefully to our customers and improving our operational execution. This action, coupled with a renewed focus on quality and style, resulted in early signs of improvement towards the end of the year.

Overview

Over the last 12 months market conditions were challenging and highly promotional. We protected margins, with targeted offers that demonstrated great value. However, we retained the flexibility to respond to market conditions, with compelling online and category promotions.

Early in the financial year, our performance was impacted by merchandising issues. We improved our processes, tightened stock management and changed the way we allocate stock to stores. We also aligned our buying procedures more closely with our marketing activity – delivering record availability on advertised lines.

In the autumn, we restructured the business, creating four business units with realigned responsibilities and greater accountability. Combining externally sourced talent with proven M&S expertise, the new leadership team has already made operational improvements and has focused its time on really understanding what our customers want from M&S.

Responding to customer feedback, we started to reassert our quality credentials, focusing initially on upgrading the products we're famous for. Our classic £6 white tee shirt benefited from improved styling, better fabric and superior finishing, resulting a sales uplift of 15%. We want customers to be confident that regardless of fabric, cut or sub-brand, they will find great fitting styles. So this year we reduced the number of block sizes used, creating more consistent sizing across all our ranges.

Womenswear

2012/13 was a challenging year for Womenswear, which nevertheless delivered good performance in individual categories. We bought with authority into our advertised lines, selling over 46,000 of our featured M&S Woman £49.50 Military Coat.

We bought with greater confidence into the seasons' key trends and customers enjoyed our interpretations. We sold over 115,000 items from the 60s-inspired Monochrome trend and almost 350,000 pieces from our feminine, pastel Dolls House collection.

We launched Twiggy for M&S Woman in April. Offering versatile, flattering fashion and attention to detail, it received a positive reaction from customers.

Our Autograph range exemplifies the best of M&S, with designer-inspired sophistication and outstanding quality. The range performed strongly this year with sales up 4%. Our Indigo Collection of casual, easy-to-wear outfits performed well and comfortably sits as our second biggest brand behind per una.

In March we appointed fashion expert Hilary Alexander as Fashion Consultant to per una. Her involvement includes 'Hilary's Edit': a selection of key seasonal outfits and an 'Ask Hilary' column on our website addressing customers' fashion dilemmas.

Better editing of womenswear helped strengthen the identity of our sub-brands and reinforce our fashion credentials. Our new store format features more statement mannequin displays, and our online Style Edit (see page 27) offers easy-to-follow outfit inspiration.

GENERAL MERCHANDISE HIGHLIGHTS

General merchandise revenue
£4.1bn
↓ 2.4%

Womenswear market share
9.9%
↓ 0.5% pts

Menswear market share
11.6%
↓ 0.4% pts

Kidswear market share
6.4%
↓ 0.4% pts

Lingerie market share
26.8%
↓ 0.7% pts

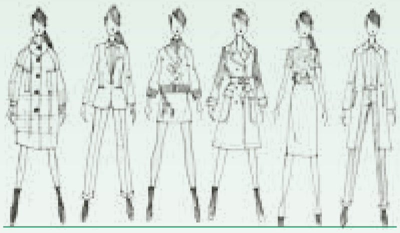
Kantar Worldpanel Clothing and Footwear – value market share 52 w/e 14 April 2013

CUSTOMER INSIGHT

"I want well constructed clothes that are made to last, with a flattering fit and style."

↑ Rosie for Autograph
Our collaboration with Rosie Huntington-Whiteley became our best selling Autograph line ever. Soft, sophisticated and ultra-feminine, the new Rosie for Autograph collection takes its inspiration from gorgeous rose blooms and Rosie's love of vintage textiles. Made from sumptuous silk and delicate French-designed lace, we sold over 430,000 items this year.

↑ **Beauty**
We launched M&S Beauty in 55 stores this year – using multi-channel activity to bring it to life. The carefully edited collection includes prestige global brands and sales from our new Beauty departments were 25% ahead of other stores.



↑ **British Fashion Council**
'Best of British' is our exclusive three-year partnership with the British Fashion Council, celebrating British fashion, home-grown talent and sustainability. As part of the initiative, two new luxurious clothing collections will feature a combination of British heritage, sourcing and production.

↓ **Fashion credentials**
In partnership with Vogue, we put together the ultimate go-to Spring wardrobe based around five easy-to-wear pieces. This capsule collection focused on exceptional quality and timeless style to create a simple, transitional mix and match wardrobe.

AS SEEN IN
BRITISH VOGUE

QUALITY

← **Our most sustainable suit ever**
Our Savile Row Inspired suit not only features impeccable design credentials courtesy of Richard James, it has a fantastic eco signature too. Made from fully traceable organic wool and incorporating a lining made from recycled plastic bottles, it's one of the greenest garments we've ever made. It even carries a unique QR code so customers can learn more about its green credentials online.

Discover more online

General merchandise continued

Lingerie & Beauty
We continue to lead the UK market in lingerie. Our customers shop with us for everyday essentials, underwear solutions and special occasion glamour. Working in partnership with our world class suppliers we introduced compelling value, quality and style for all customers. We saw strong sales of our two pack Limited Collection bras at £16 and our French-designed, vintage-inspired Autograph lace collection at £22.50. Innovation remains a key feature of M&S Lingerie. Successes include the extension of our Heatgen™ Thermal range, up 33% and our Perfect Fit Bra, up 72%.

The merchandising teams focused on improving availability and reducing lead times, enabling us to improve performance in areas such as sports bras, up 19% and dressing gowns, up 12%.

Menswear
We remain the UK's number one menswear retailer and saw strong sales in heritage departments such as coats and outerwear, up 14% and nightwear up 3%. Customers enjoyed our interpretation of the British heritage trend and formal jacket sales rose 6%. Improved style helped us strengthen our position in growth areas, with footwear and accessories sales up 2%. M&S is renowned for its tailoring and we have a suit for every age and budget – from our great value £99 suit to our Savile Row Inspired range.

Kidswear
Parents turn to M&S for great value kidswear they can trust. We experienced our best ever year in schoolwear, selling 8.4 million items, up 8% on last year. Independent tests rated our schoolwear as the best quality on the high street.

With family celebrations a priority for customers, we offered great value on our occasion wear. Our Spring 20% off promotion proved popular ahead of the wedding season, with sales of boys' suits and girls' bridesmaid dresses up 33%.

Home
Despite the static housing market furniture sales rose 2%, driven partly by improved quality and faster delivery times on a number of key lines.

In August we launched our new in-store Home concept, which transformed the way we showcase our products. It also embraces technology to offer greater choice and make it easier to shop our ranges. The new concept is now in 33 stores and they are performing well, 10% ahead of non-concept stores.

Looking ahead
We are reasserting our commitment to delivering the M&S difference on every product. We want our clothing to inspire customers to look and feel their best, exceeding their expectations around fabric, fit and finish. With a new team in place, we are reinvigorating our style credentials and will deliver confident edited collections of the seasons' key styles, along with the quality wardrobe staples we're famous for.

Autumn/Winter Collection
We are refocusing our clothing strategy on the values that made the M&S brand famous – putting quality and style back at the heart of everything we do. Over the last six months we have undertaken extensive research; listening carefully to our customers' views and building on our heritage to help us rediscover the fashion DNA that makes M&S special and relevant.

With an initial focus on womenswear, our new clothing strategy encompasses the following:

- an investment in quality that includes upgrading to more premium fabrics, using product innovation to deliver a better fit and finish, whilst maintaining prices for customers;
- clearer and more compelling sub brands, with the launch of M&S Collection;
- confident edits of the key trends for each season, that see M&S lead the way;
- improved fashion and design credentials, including a new Best of British range.

Ultimately, we want to deliver beautifully made aspirational clothes that inspire our customers. They will begin to see these improvements from late July, when our new Autumn/Winter collection launches in store and online. Complementing the quality wardrobe staples will be an edit of the key trends, each designed to work for the M&S customer in a considered and wearable way. To share the progress we have made, we have included an exclusive shareholder preview of the collection with this report.

Food

"Customers trust M&S to deliver quality, innovative food for every occasion."

Steve Rowe
Executive Director, Food

Our Food business delivered an excellent performance in a challenging market, with total sales up 3.9% to £4.9bn. We outperformed the market on a like-for-like basis, with sales up 1.7%, consolidating our position as the UK's leading high quality food retailer. Customers trusted M&S to deliver for the most important occasions and our continued focus on quality, innovation and availability – coupled with the roll-out of our new Food Hall format – helped us strengthen market share.

Overview

Our market-leading innovation brought over 1,900 new lines into our Food Halls this year. From new international dishes to healthy eating ranges, our innovative products kept customers coming back – offering greater choice and catering for their changing tastes and priorities.

With value front of mind for customers, we ensured our offer remained competitive through a combination of independent weekly price matching and well targeted offers. We offset the commodity price rises in the market, thanks to stronger management of stock and promotions.

The introduction of our Simply M&S range, coupled with everyday promotions such as our 3 for £10 offer on meat and fish, helped customers get even better value from their weekly shop. Despite limited budgets, customers were determined to enjoy time with friends and family and make the most of special occasions. Our iconic Dine In deal supported this desire to enjoy restaurant quality food at home and proved consistently popular.

Quality, trust and provenance continue to underpin everything we do – from our relationships with suppliers to the products we sell. In a year when the industry was affected by supply chain issues, our commitment to provenance served us well, as customers continued to trust M&S to deliver responsibly sourced, quality produce. All our beef, pork, salmon, poultry and in-season lamb is sourced from the UK and the Republic of Ireland.

Our commitment has been acknowledged by numerous awards this year – including the Ethical Corporation Responsible Business Supply Chain Excellence award.

Quality at great value

In a highly competitive market we launched Simply M&S: a range of 700 everyday food items that offer M&S quality at great value prices. Hundreds of prices were lowered and new lines added to give customers even more choice. All Simply M&S eggs are free range, bacon is British and all tea and coffee is Fairtrade – underlining our uncompromising sourcing standards. The range complements existing lines and highlights M&S' superb quality and value under one clear brand. Since launch, we have sold over 350 million products.

Our high ethical and sourcing standards continue to set us apart from the competition. Our standards are industry recognised; our leading animal welfare policies earned us the Compassion In World Farming Good Pig Award and our fish is recognised by the Marine Conservation Society for best-in-class sustainable seafood practices. Our bespoke feeding programme provides our Scottish Lochmuir™ salmon with exceptional flavour and we sold 10.8 million packs of fresh and smoked salmon this year, up 16%.

Despite 2012 being one of the wettest years on record, we maintained supplies of high quality fresh produce, thanks to our collaborative supplier relationships. We delivered the finest soft fruits throughout the summer, including the exclusive 'Driscoll Diamond' strawberry, especially named in honour of The Queen's celebrations. Over the extended Jubilee week we sold a record one million punnets of strawberries to customers celebrating at home.

FOOD HIGHLIGHTS

Food revenue
£4.9bn
↑3.9%

Market share
3.8%
level

Number of new lines
1,900

↑ Simply great value
Simply M&S products are independently price checked every week to ensure the range is competitively priced. The easy to identify packaging features a shopping list style labelling and is mostly transparent so customers can see the great quality of the products.

↑ A summer of celebration
With several opportunities to celebrate during the summer, we launched over 200 British-inspired lines. We sold over 800,000 tins of Diamond Jubilee biscuits worldwide and in the first week of the Olympics we sold over one million packs of sausages and 350,000 burgers.

Food continued

↓ A record Christmas

We launched over 250 new Christmas lines and had our best ever week for party food in the lead-up to Christmas, selling 2.2 million packs. We sold almost 1.1 million fresh turkeys, crowns and joints and over 24 million mince pies.

CUSTOMER INSIGHT

"I want M&S to make it easy for me to enjoy delicious healthy food. I don't want it to feel like a diet."

↓ Healthy eating

We supported customers' healthy eating choices, adding new lines to our market-leading Fuller Longer and calorie-controlled count on us™ ranges. We also launched our Delicious & Nutritious range, inspired by vibrant cuisines from around the world. All meals contain health boosting ingredients such as seeds and wholegrains.

↑ Fresh produce whatever the weather

As wet weather threatened crucial Christmas crops, we worked closely with our suppliers. The Haines family – who have supplied M&S for 30 years – were able to protect the crop on their Cotswold farm thanks to its relatively sheltered position, helping us ensure we had plenty of sprouts for our customers. Sales of sprouts this festive season were up 100%.

↓ We trace it so you can trust it

Good food starts with good ingredients – and the best ingredients come from the best farmers. Every farm supplying us with fresh meat is known to us and independently audited to ensure the highest standards. The tests on our products told us what we already knew: where it says so on the packaging, our products contain 100% beef.

Discover more online

↓ Cook with M&S

We relaunched our Cook and Stir Fry ranges this year and stocked more key ingredients to help customers cook from scratch. Designed to take the hard work out of preparing a delicious home-cooked meal, we introduced our new stir-fry shop, featuring a wide variety of fresh and exciting ingredients. We have sold over 500,000 items since launch.

Innovation and choice

M&S is recognised for pioneering product innovation and this year we continued to lead the way. We offered customers even more choice through constant innovation and first-to-market products, launching 1,900 new lines and refreshing 25% of our entire range.

We strengthened our position as market leader in international recipe dishes, with the launch of España – the high street's first range of contemporary Spanish cuisine, which uses authentic ingredients such as Oloroso sherry and pimento de le vera. We also introduced a new Modern Asian range; inspired by the continent's aromatic, vibrant flavours. Our most popular dish is the Wok Beef Noodles selling over 210,000 items since launch.

Our product developers responded to the latest restaurant trends, with a number of high street firsts. We received industry recognition for our Runny Scotch Egg; developed using the complex sous vide technique, it contains a perfect runny centre. Customers loved our twist on this classic British favourite, with over 165,000 sold to date. Capitalising on the Dim Sum trend, we introduced delicious Chinese steamed pork buns in time for Chinese New Year celebrations in February. Made with succulent, slow cooked shredded pork in hoisin and soy sauce, we sold over 20,000 packs.

Trusted for the most important occasions

When it matters most, customers turn to us for something truly special. Our reputation for innovation, coupled with exceptional quality, means M&S has become a destination of choice for customers looking to make celebrations more memorable. This helped us deliver a record Christmas, with M&S outperforming the market in the two key festive trading weeks, followed by our best ever Easter week.

We also provided customers with inspirational gifts and treats to mark special occasions. We sold over 1.5 million Valentine's Day chocolates, up 10% and sold over two million bouquets and plants in the week before Mothers Day, up 6.5%. Our online flower ordering business continues to grow, as customers enjoyed the convenience of gifting on the go.

Our online Food to Order offer makes entertaining even easier, with party-sized portions and helpful menu suggestions. Our Christmas Food to Order proved extremely popular, with over 400,000 orders placed during the festive period, up 5%. Our Wine Direct business was up 25% this year as more customers ordered our award-winning wines and champagnes by the case for delivery straight to their door.

Service and speciality

Our new store format has now been applied to over two-thirds of our Food Halls, improving the shopping experience, providing elements of theatre and reinforcing our position as a specialist food retailer. Selected stores now include delis and we have rolled out artisan bakeries to 330 stores, including 161 Simply Food stores. Bakery sales are up 20% as a result.

This improved in store experience, was enhanced by even better customer service. Our Customer Ready Food initiative gave employees ownership of zoned areas within the Food Halls – ensuring they remained visually appealing and well stocked. New videos and learning resources helped improve employees' product knowledge, enabling them to provide expert advice on the latest food innovations and trends.

Through our ongoing supply chain improvements and the implementation of our new space, range and display system, we further improved availability and we remain on track to deliver our 5% improvement target by 2013/14.

Looking ahead

The market will remain challenging but through our commitment to quality and innovation, we will continue to provide compelling reasons to shop with M&S. We will offer customers even greater choice, making better use of our existing space and further improving availability. In the year ahead, we will concentrate on providing more of what we know our customers love, with the aim of making every food moment special.

UK stores

Our stores remain the most popular way to shop with M&S, serving over 20 million customers every week. Over two-thirds of our UK stores have now been transformed with our new store format, which provides a more inspiring and interactive shopping experience. Throughout the year we continued to carefully evaluate the geography of our UK store portfolio, ensuring that we are positioned in the best and most convenient locations across high streets, retail parks and out-of-town developments.

UK store portfolio

This year our new store openings and extensions added 410,400 sq ft of new space. We opened a number of larger stores in retail parks, including Crystal Peaks, Peterborough, Milton Keynes, Ashton Moss and Newport. We also continued our modernisation programme, undertaking major updates in 19 stores this year including Camberley and our flagship Marble Arch store.

In August we opened Cheshire Oaks, our new 151,000 sq ft flagship store for the North West, second in size only to our Marble Arch store in London. Serving a catchment area of over 1.3 million people, it showcases the very best of M&S store design, multi-channel innovation, service and environmental standards under one roof.

With outstanding green credentials, Cheshire Oaks is also a true community store. We engaged with local groups right from the start; with educational site visits and a focus on local investment, we ensured key stakeholders remained informed of plans and progress throughout the build. The store created over 350 new jobs in the region and attracted over 21,000 visitors on opening day. The store has received excellent customer feedback.

New look stores

Last year we began the roll-out of our new store format, designed to make our stores easier to shop by improving navigation and making better use of space. Our new format features clearly defined areas to reflect the distinctive personalities of our clothing sub-brands and improved product presentation.

The format also brings elements of theatre to our Food Halls, such as artisan bakeries and delis, to reinforce our 'speciality' positioning and showcase our fresh food to its best advantage. This first phase has been rolled out to 337 UK stores.

In the first half of the year we launched the second phase of this programme, including new look Beauty and Home departments. The new format is helping customers reappraise the M&S offer and these stores are performing ahead of the rest of the chain.

Service in store

Great service is an essential part of delivering an inspirational shopping experience and this year we continued to invest, with the launch of our new 'In Touch' programme (see page 30). Designed to provide employees with the knowledge and resources required to respond to our customers' changing needs, the in-store training module has now been rolled out to all stores including Franchise and Outlets.

Our Mystery Shop programme has helped ensure we continue to deliver the very highest standards of service and this year's scores remained high at 81%. However, as part of our aim to be more in touch with our customers, we decided to replace our monthly Mystery Shop programme with a more regular, in-depth customer satisfaction survey. Under this new format, one in every ten store customers is invited to take part in an online survey through their till receipt and incentivised by a prize draw. We are currently receiving over 12,000 responses every week.

Technology in stores

This year our business unit, store design and e-commerce teams collaborated to make our stores work harder and bring the M&S multi-channel experience to life in our stores.

Using the latest technology, we are offering improved convenience, more inspiration and greater choice. We now have a total of over 250 Browse and Order points across 82 stores – enabling customers to shop more of the M&S product catalogue. Stores are now equipped with around 1,500 iPads, enabling employees to offer a more personalised service and order products for customers on the spot – either for home or free-to-store delivery.

UK STORES HIGHLIGHTS

Total UK portfolio	766
Premier	12
Major	59
High street	228
Outlet	48
Simply Food (owned)	176
Simply Food (franchised)	243

CUSTOMER INSIGHT

"Great service means friendly, helpful and knowledgeable employees – who are available and able to answer my questions."

↑ **Trend zones**
Customers told us they were looking for more inspiration and reasons to spend in store. Responding to this, our visual merchandising teams created trend zones, bringing products to life to show how outfits can be put together and enabling customers to quickly and easily recognise items from our advertising campaigns.

← Quicker and more convenient
Following a successful trial, we rolled out contactless payment across all our UK and Republic of Ireland stores. Customers are enjoying the speed and convenience of the payment method and 14% of card transactions under £20 are now completed by contactless.

↓ Our greenest store
Cheshire Oaks includes the latest sustainable building features such as a 100% FSC-certified engineered softwood timber roof, hemp and lime external wall panels and harvested rainwater to supply toilet facilities and irrigate the store's 'living' greenwall.

Discover more online

↑ Simply Food
Customers appreciate the convenience of our Simply Food store format and this year we opened nine new M&S owned sites. Seven of these were in prime out-of-town locations with car parks and many of the larger stores feature a bakery, deli or café as well as our Shop Your Way order and collection service. We plan to maintain the rate of new store openings in the coming year.

← Customer satisfaction survey
The new format provides us with regular, real-time insight into the things that matter most to customers. They are invited to provide verbatim comments under the topics – 'friendly and helpful', 'available to help', 'knowledge', and 'quick to pay'. Stores can access their scores via an online portal – putting them more in touch with the customers they serve.

Looking ahead

Our priority remains to deliver an inspirational shopping environment for our customers in the most convenient locations possible. The coming year will see us complete the roll-out of our new look store format. This improved product presentation will be supported by more knowledgeable and informed employees. We will continue to cater for our customers' changing shopping habits – working closely with our digital team to deliver a more integrated experience.

Multi-channel

"We're making it easier for customers to shop the way they want with M&S."

Laura Wade-Gery
Executive Director,
Multi-channel E-commerce

This year we saw a good M&S.com performance, with sales up 16.6% despite tough comparatives. Over the last 12 months we have made the M&S shopping experience easier and more convenient – as well as more inspiring – for our customers, however they choose to shop with us. We are applying multi-channel thinking right across the business and are building a world class infrastructure to help us fulfil our customers' expectations.

Throughout 2012/13 more customers opted for the convenience of online shopping. We now have over 3.6 million weekly visitors to our UK site, thanks to a combination of improved navigation, more style advice and greater choice, including 40% more online product exclusives.

Our online business now accounts for a greater proportion of our General Merchandise sales at 13% compared to 10.9% last year. Some 40% of all dresses were sold online and one in four M&S suits was sold through our website.

Now available in 476 stores, our Shop Your Way service allows customers to order and collect their shopping in the way that suits them best. This year we improved the offer with the launch of free next day delivery to our stores. The service grew in popularity, with over 54% of M&S.com orders being placed or collected in store.

New ways to shop

Expanding M&S.com not only gives us more reach, but drives more spend from our customers. By providing new ways to access products we attract slightly younger customers and extract more value from our stores.

As explained on page 24, we made more of our products available to our customers through the introduction of new Browse and Order points to our stores and by equipping more store employees with iPads. Large digital screens play catwalk videos and our new Home and Beauty departments use technology to inspire customers and provide tailored advice and guidance.

In May 2012 we relaunched our mobile-optimised site to deliver an even richer browsing and shopping experience. We launched our first ever transactional iPhone app in July 2012 and created a new M&S Home iPad app, which brings our home catalogue to life in an easy-to-shop format. As a result, mobile and tablet sales increased by almost 200% and now account for 18% of M&S.com sales.

As explained on page 16, we are tailoring our marketing campaigns to reflect customers' increasing use of mobile and the completed roll-out of free WiFi has made it even easier for them to browse and buy from their devices in our stores.

Building a world class infrastructure

To fulfil our multi-channel ambitions we need to be an agile business, with the right infrastructure in place and the ability to innovate with pace. This year we made real progress and in February 2013, we launched a new Digital Lab function to help us move faster in developing first-to-market technologies for e-commerce, in-store technology and digital marketing. Our team of specialists test emerging retail technologies, build prototypes and develop concepts for implementation on a larger scale across M&S.

Our new 900,000 sq ft e-commerce distribution centre at Castle Donington opened in May 2013. Located at the heart of the UK's road and rail network, the fully automated site will help us to better serve customers across the country, with further improvements expected to delivery times and product availability in the year ahead.

During the year we began to introduce elements of our new multi-channel platform. The full new site will launch in Spring 2014, showcasing the best of M&S via a fashion-forward online environment and offering a crisp, easy-to-shop experience.

MULTI-CHANNEL HIGHLIGHTS

Revenue
£651.8m
↑ 16.6%

Weekly site visitors
3.6m
↑ 18%

↓ Multi-channel Home Hub
Our new Home Hub maximises our selling space, with touch and feel sample displays to showcase items such as towels, fabrics and upholstery. Customers can then browse and order from the full range via iPads and large format touch screen points. The format also features interactive buying guides, such as 'Your Perfect Night's Sleep', which helps select the ideal duvet.

← Reaching more customers

Our international multi-channel expansion continued this year, and by April 2013 we had transactional websites in ten markets. We further improved our multi-channel offer, with fully mobile optimised sites and through the introduction of Shop Your Way to our French and Irish markets.

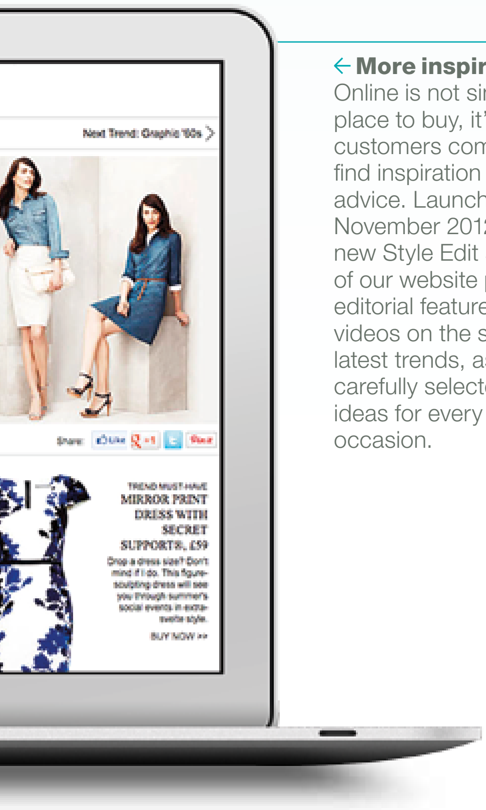
CUSTOMER INSIGHT

> "I expect to be able to shop whenever and wherever I want."

↓ Mobile app

Downloaded over 580,000 times since launch, our iPhone app puts a whole store's worth of product in our customers' pockets. It reached the top position in iTunes Free UK Lifestyle Apps and we continue to add new features, such as M&S Live, which allows customers to generate exclusive video content from printed images using augmented reality technology.

NOVATION



← More inspiration

Online is not simply a place to buy, it's where customers come to find inspiration and advice. Launched in November 2012, the new Style Edit section of our website provides editorial features and videos on the seasons' latest trends, as well as carefully selected outfit ideas for every occasion.

↑ Virtual makeover

Our virtual makeover counter uses facial recognition technology to enable customers to upload a photo and experiment with the latest beauty trends. Featured both online and in store, it has attracted more than 200,000 visitors to date.

Discover more online

Looking ahead

The customer remains at the heart of all our multi-channel initiatives and we must continue to respond to their changing needs, as we aim to help them truly shop their way with M&S. 2013/14 is a milestone year in our multi-channel journey. The launch of our new website platform, coupled with a fully operational distribution centre, will significantly enhance our capabilities and help make M&S.com the flagship experience for our customers – showcasing our entire product range, bringing the M&S brand to life and offering a brilliant buying experience.

International

Sales in our International business were up 4.5% to £1.1bn this year, reflecting strong growth in our priority markets. However, operating profit was down 9.9%, due to the impact of currency translation, prevailing macroeconomic conditions and start-up costs in key markets. We now trade in 51 territories from 418 stores totalling 5.4m sq ft and have further extended the reach of the M&S brand through the launch of new in-country websites.

Building a more international company

Our international strategy is built around a clear geographic focus, supported by the right business model for each market. We are growing our presence in India, China and the Middle East region including Russia and Turkey, as well as developing a multi-channel proposition to serve customers in Western Europe. This approach is being delivered by a best-in-class international management team, comprising high calibre external talent, M&S experience and valuable local expertise.

We began work to improve our international buying processes – combining our central planning with local market knowledge to deliver a more tailored product offer that better reflects local seasonality, culture and customer profile. Supply chain improvements are enabling us to deliver product to our international stores more efficiently. We trialled a new approach to product cataloguing across our 46 Czech stores, developing a clear customer profile for each store and adapting the product range accordingly. We're extending the use of this model to more stores.

Our specialist visual merchandising team, combined with the roll-out of our new store format to selected international stores, is helping us deliver a more aspirational and consistent store environment for international customers. This has been further supported through the provision of additional marketing support and visual merchandising guidance to our franchise partners.

Regional focus

In Asia, we focused on driving growth in our priority territories of India and China and delivered a sales growth of 13%. With our partners Reliance Retail, we opened six new stores in India and we continued to grow our presence in Shanghai, with the opening of seven new stores. We now have a total of 14 stores in the Shanghai region including our new flagship store at Golden Bell Plaza. Our Hong Kong operations also performed strongly and we opened a new store in the New Territories in January.

Our franchise operations across key territories in the Middle East performed well, with sales up 9.7%. We opened 19 new stores across 11 territories, including new markets such as Georgia, Kazakhstan and Armenia. We enhanced our offer in existing markets, introducing the new store format to our flagship Bagdat store in Turkey.

Our European business was impacted by the ongoing weakness of the Irish and Greek economies and sales were down 0.4%. Sales in the Czech Republic strengthened as the business responded well to the management and structural changes put in place last year.

Our first full line French store opened in October at So Ouest in Levallois-Perret, Paris and attracted over 80,000 customers in its first three days of trading.

Multi-channel expansion

Our 'bricks and clicks' strategy combines international store openings with website launches and the latest digital technologies. This approach enables us to extend the reach of the M&S brand in both new and existing markets, as well as tailoring our offer to local customers' shopping preferences.

In May 2012 we shared plans to trade in ten markets by the end of the financial year. Following the successful launch of our local French and Irish websites, we made significant progress, with the launch of a further six fully localised European websites by April 2013.

In addition to our European e-commerce offer, we are working closely with international partners to benefit from their local infrastructure and expertise to help us explore the growth opportunities in more complex e-commerce markets. In January we launched an online shop on China's leading retail website TMall and in February, we announced plans to launch an e-commerce offer for the Russian market, operated by our existing franchise partner Fiba.

INTERNATIONAL HIGHLIGHTS

International revenue
£1.1bn
↑ 4.5%

↑ Golden Bell Plaza, Shanghai
Our new 4,500 sq m flagship store offers over 280 exclusive fashion lines. Bestselling items include Savile Row Inspired suits and per una Speziale dresses.

↑ Bringing London style to Europe
In November 2012 we launched fully localised websites across Spain, Germany, Austria and Belgium. Each site trades in Euros and offers the preferred local language, payment and delivery options. In April 2013, we added Luxembourg and The Netherlands – taking the M&S brand to more customers across Europe's fastest growing e-commerce markets.

Total Europe:
155 stores
4 new stores opened (-2 net)
6 new websites

Total Middle East and North Africa:
137 stores
19 new stores opened (+15 net)

Total Asia:
126 stores
22 new stores opened (+18 net)
1 new website

PANSION

↓ Focus on franchising

We work with over 17 global franchise partners accounting for 35% of International sales. The franchise model is lower risk, capital light, drives profitable growth and through our partners' local market expertise, helps us access prime retail locations. Our growth plans place greater emphasis on the franchise model and we're working hard to strengthen relationships and give our partners confidence to further invest in the brand.

→ Celebrating Britain

The unique events of 2012 put Britain in the global spotlight and we capitalised on our heritage with a range of British-themed products. Our commemorative Jubilee biscuits tins proved extremely popular, selling over 200,000 internationally.

Looking ahead

The coming year will see us continue to grow our priority markets, with a strong focus on franchise growth and a fully integrated multi-channel approach. We will also drive growth in emerging markets by selecting mall developments that offer the very best opportunities to drive footfall to our stores.

People

Our people are the lifeblood of M&S; bringing our values to life: from the innovative products they create through to the service they provide. To deliver value for our shareholders we must engage our employees in our business plans and ensure we have the right individuals, with the right mix of skills to deliver growth. In 2012/13 we kept our 82,000 colleagues as engaged as possible and in turn helped them become more in touch with our customers.

Skills for today and tomorrow

As we transform M&S from a traditional British retailer to a leading international, multi-channel retailer, the skills and experience of our workforce must evolve too. This year we strengthened our leadership team with a number of senior appointments and almost two thirds of our top 100 managers now have international experience. In support of this, we introduced a 'global mobility' team to facilitate global working and help increase international exposure across the business.

This year we continued to build our pipeline of future talent; we continued our MBA programmes, recruited 150 graduates and offered 50 one-year placements to undergraduates as part of their degree course. Following the move to bring our software development in-house, the 2013 graduate scheme also included opportunities for specialist software engineers to drive our ongoing IT innovation and support our multi-channel ambitions.

We are focused on building robust succession plans, aligning the content of our development programmes with our business strategy. Over 90% of our senior management has now completed our flagship training programme – Lead to Succeed. This year we introduced a new development programme, targeting the next generation of emerging leaders.

In touch with our customers

Our new company-wide In Touch initiative is designed to equip employees with the insight and skills to connect with customers and help them discover more about M&S. We know our customers are looking for friendly, helpful, knowledgeable people when they visit our stores and through a combination of in-store learning and information sharing, we are helping employees better anticipate customer needs and deliver even higher standards of service.

Focusing on product knowledge, presentation, availability and service, over 65,000 colleagues have now participated in our In Touch learning programme. As we introduce more technology to our stores, apps are also becoming an increasingly popular communications resource and our Knowledge to Share videos are now available on in-store iPads, as well as our online portal. These short films from our in-house experts help employees share their pride and passion for our products and services with customers. We have also introduced social media portals into our offices, delivering a live stream of customer comments to M&S employees across our business.

Employee engagement

We know there is a strong correlation between engagement and performance, so in 2012/13 we introduced our new Pulse questionnaire – a shortened version of our annual Your Say survey – which increased the frequency of employee feedback from annual to quarterly. Results are shared via our new online Engagement Hub, which brings together resources including external research and practical tools to help managers address specific challenges and create a more engaged team. Despite a challenging environment, our Your Say survey demonstrated improved engagement, up 3% on last year.

Through our communication channels we ensure everyone understands how they can contribute to M&S' success. This year we extended our popular BIG Idea staff suggestion scheme to our international businesses, starting with colleagues in our international sourcing offices. Through the scheme, we pose a quarterly question focusing on a key business issue to employees. Each question attracts around 2,000 ideas and the first question posed to the international staff attracted a response from over one in ten employees.

Providing an efficient service

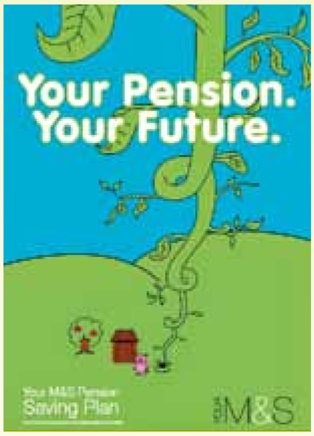
As part of our wider IT upgrade programme, we are rolling out our new People Planning system to all our offices and stores. Designed to improve the accuracy and flexibility of our HR service, the new systems help deliver better resource planning, fewer pay queries and a significant reduction in paper usage. Employees are also enjoying the benefits – such as remote holiday booking, online payslips and a salary exchange scheme.

PEOPLE HIGHLIGHTS

Total employees
81,734

Employees with over five years' service
59%

Employees with over ten years' service
31%



↑ **Pension auto enrolment**
New legislation introduced in November 2012 required us to automatically enrol eligible employees into our pension plan. We worked hard in advance to ensure we had an appropriate solution for the business and retained a leading pension offer for our employees.

↑ **Our new wellbeing website**
Keeping our people healthy and happy helps to ensure we have a productive and effective team. Our Wellbeing website encourages employees to maintain a healthy lifestyle and this year we updated the site, adding new features including online physiotherapy advice and confidential counselling services. The site now attracts up to 2,000 employee visits each month.

New employee uniform
Taking a number of our best sellers as inspiration, we unveiled a new uniform for our store colleagues. At employees' request, we incorporated more pockets and a key loop into the new design and accents of green on all pieces make our customer assistants easier to spot. All 80,000 pieces of the previous uniform will be Shwopped.

Marks & Start Logistics
Inspired by our successful scheme already operating in stores and offices, we took our Marks & Start scheme to another level and a new part of our business. Marks & Start Logistics will help recruit, train and employ people with disabilities and health conditions at our newly opened e-commerce distribution centre at Castle Donington.

MARKS & START Logistics

Discover more online

IN TOUCH

Looking ahead
We will continue to engage our people in our plans – building a more international, multi-channel mindset across M&S. Our employees will be equipped with the skills and insight required to bring the improvements we're making to life for our customers. We will continue to nurture talent within the business and to ensure we have the right people to drive growth and deliver our ambitions.

Plan A

After our five year milestone in 2012, this year was one of planning and progress for Plan A. The commercial benefits of our commitment remained clear, as Plan A generated its biggest net benefit to date, with £135m available to be invested back into the business. Having achieved our ambitious operational targets of becoming carbon neutral and sending no waste to landfill, we continued our journey of improvement; stretching ourselves further and extending the influence of Plan A.

Continuing our journey

In line with the seven pillars of Plan A, we extended our involvement with our stakeholders to combat climate change, reduce waste, use sustainable raw materials, trade ethically and help our customers and employees lead more sustainable lifestyles. We are now measuring our progress against our 2015 targets and have achieved 139 of our 180 commitments, with a further 31 on plan. As we move towards our goal of becoming the world's most sustainable major retailer, we face some challenging targets: to meet sustainable sourcing standards for key raw materials, to ensure 50% of products have a Plan A quality and improve our suppliers' sustainability performance.

We have made good progress and 45% of M&S products sold now have a Plan A quality such as Fairtrade, organic or made from recycled material, compared to 31% last year. We now use cotton sourced from the Better Cotton Initiative (BCI) in over 900 M&S products, including our bestselling jeans and lingerie and are committed to sourcing 25% of our cotton from sustainable supplies by 2015.

We extended the scope of our external collaborations so that our initiatives can influence behaviour beyond M&S. In conjunction with Oxfam and Business in the Community, we extended our successful Shwopping scheme with a free clothes recycling service for offices and workplaces. More than 10,000 garments were collected in the first month, with over 70 companies signed up to Shwop at Work, including B&Q, IBM and Thames Water. We are working with other retailers as part of the Sustainable Clothing Action Plan and we were delighted that other major retailers followed our lead and introduced versions of Shwopping.

Of our top 100 clothing suppliers, 48 have worked with us to implement energy efficiency measures and we now have a total of 35 qualified for our rigorous Eco-Factory status. The launch of our Supplier Training and Education Programme (STEP), made it even easier for suppliers to benefit from the lessons we have learnt through Plan A. Hosted on our Supplier Exchange website, it provides access to a wealth of free resources and information.

Involving our customers and employees

Our customers are the central force for driving change and this year, over five million customers took part in Plan A activities. We added a more digital dimension to Plan A too, using social media to tell customers how they can get involved and our Shwopping app on Facebook attracted over 700,000 customers.

Customers helped raise £1.5m for Breakthrough Breast Cancer through their donations and more than £690,000 for Macmillan Cancer Support, through our World's Biggest Coffee Morning. At our Big Beach Clean-Up in April 2013, 9,000 M&S customers and staff helped clean over 160 beaches and canals collecting over 4,000 bags of rubbish. This year 3,000 schools registered to take part in our School of Fish educational programme.

You can find out more about the progress we made this year by visiting our online Plan A 2013 report available at marksandspencer.com/plana2013

PLAN A HIGHLIGHTS

Plan A Commitments
180

Commitments met
139

Commitments on plan
31

↓ Supporting Fairtrade
We continued to introduce new lines of Fairtrade foods, and sales have doubled since Plan A began in 2006/07.

↑ Recognition of our achievements
Our performance was recognised in more than 40 social and environmental awards and league tables. M&S was the only retailer included in the global Carbon Performance Leadership Index and for the third time, M&S was named the 'Responsible Business of the Year' by Business in the Community.

← Helping customers and employees count calories
In line with our health and wellbeing commitments, we introduced calorie labelling in our store cafés and other catering services for customers. We also now include calorie information on the menu boards in our employee cafés, and highlight Eat Well products.

↑ Cutting construction waste
In the year we launched our biggest, greenest store at Cheshire Oaks, we have already beaten our 2015 target to reduce construction waste by 50% for every £100,000 project we undertake, with no construction waste to landfill.

GAGEMENT

↑ The impact of Shwopping
Through our Shwopping initiative, customers and employees helped divert over 3.8 million items of clothing from landfill this year. Plan A ambassador, Joanna Lumley visited some of Oxfam's Shwopping-related projects in Senegal that are already making a difference to communities and changing lives for the better.

Discover more online

SHWOP

CUSTOMER INSIGHT

"I want businesses to be in touch with the communities they serve."

Looking ahead

We are proud of what we have achieved, but there is more to do in terms of how we influence our employees, customers, suppliers and even our competitors. In 2013/14 we will work with our external Sustainable Retail Advisory Board to shape our future vision for Plan A – ensuring it reflects changing social priorities, whilst continuing to tackle the environmental and ethical challenges that inspired its launch.

Financial review

"We're building an infrastructure fit to support our future as an international, multi-channel retailer."

Alan Stewart
Chief Finance Officer

In a challenging trading environment, we delivered sales of £10bn this year, up 1.3%. We managed the business prudently and our underlying profit was £665m, with underlying earnings per share at 32.7p.

Whilst the execution of our business plans continued to move with pace, we navigated the short term market challenges through strong financial management. In a highly promotional marketplace, we protected our margins through tight control of mark down and well targeted promotional activity. Improved buying and food waste management helped us mitigate commodity price increases and further protect profitability.

This approach was supported by tight cost management across the business, with UK operating costs up 1.8%. I have always been clear that running an efficient business is not simply about cost cutting; it's about having the right procedures and processes in place.

Our commitment to Plan A encourages us to find new and better ways of doing things to address the eco and ethical challenges we all face. In doing so we have delivered a net benefit of £135m available to be reinvested back into M&S. As members of the International Integrated Reporting Council pilot, we are committed to reporting the long term value created by sustainable business practice.

Investing in our future

Our investment is strengthening our UK business through the roll-out of our new store format – encouraging customers to reappraise M&S. Multi-channel sales accelerated to £651.8m and International sales reached £1.1bn.

We added 2.8% new selling space in the UK; including nine new wholly owned sites for our popular Simply Food format.

As with our operating costs, we applied a disciplined approach to our expenditure. In the second year of our plan, activity has peaked with capital expenditure at £821m. Through prudent management we expect capex to be £775m in 2013/14, a reduction on the previous guidance of £850m. From 2014/15 we expect it to fall to c.£550m per annum, a £50m reduction on our earlier guidance.

A better business infrastructure

Our investment is helping us deliver transformational change to our business infrastructure – ensuring it is fit to support our strategic ambitions and allows us to meet and exceed our customers' growing expectations.

To achieve these aims we need to simplify our IT and management systems and create a supply chain that is agile, fast and flexible from end to end. We are already making improvements; changing the way we allocate stock to store and sourcing more from our direct suppliers to make the most of our scale.

In May 2013 our major new distribution centre at Castle Donington became operational, which will help us deliver a step change in the way we serve M&S.com customers. The fully automated site ensures we have all e-commerce stock in one central location, at the heart of the UK road and rail network. Better visibility of our stock will drive improved availability, faster delivery times and reduced distribution costs.

We are further strengthening our multi-channel capabilities through the in-house development of our new website platform. Due to launch in Spring 2014, the new platform will be better integrated with our in-store and service systems – providing us with the flexibility required to deliver a best-in-class customer experience.

Strengthening our financial position

Our investment in future growth is funded through our existing cash flows – supporting our commitment to maintaining an investment grade credit rating and a progressive dividend policy.

We have maintained a strong balance sheet, with net debt at £2.6 billion, including £606m of property partnership liabilities associated with the pension fund.

In November we announced the outcome of the triennial actuarial valuation of our Defined Benefit Pension Scheme as at 31 March 2012. This resulted in a funding deficit of £290m, a substantial reduction from £1.3bn as at 31 March 2009. As a result, we agreed a reduction in the annual cash contributions as part of the ten year funding plan, saving £245m of which £153m will fall in the next four years.

We have made good progress with our funding activity this year. In December, we issued £400m of 12.5 year bonds at a rate of 4.75%. The bonds were significantly oversubscribed and priced below the Group's average cost of debt of c.6%, providing sufficient liquidity to manage upcoming debt maturities.

In light of long-term interest rates and the successful bond issuance, we decided to buy back and cancel £250m of puttable callable bonds issued in 2007. This incurred a one-off non-underlying cost of £75m. This activity supports our funding strategy, ensuring we have the right mix of funding sources that provide the cost effectiveness and flexibility to match our business requirements.

Looking ahead

The transformation of our infrastructure will deliver tangible benefits for both our business and our customers; creating a strong and efficient platform from which to deliver sustainable long-term growth.

Summary of results

	52 weeks ended 30 March 2013 £m	31 March 2012 £m	% variance
Group revenue	**10,026.8**	9,934.3	+0.9
UK	**8,951.4**	8,868.2	+0.9
International	**1,075.4**	1,066.1	+0.9
Underlying operating profit	**781.6**	810.0	-3.5
UK	**661.4**	676.6	-2.2
International	**120.2**	133.4	-9.9
Underlying profit before tax	**665.2**	705.9	-5.8
Non-underlying items	**(100.9)**	(47.9)	
Profit before tax	**564.3**	658.0	-14.2
Underlying earnings per share	**32.7p**	34.9p	-6.3
Basic earnings per share	**29.2p**	32.5p	-10.2
Dividend per share (declared)	**17.0p**	17.0p	level

Revenues

Group revenues were up 0.9% (+1.3% on a constant currency basis), driven by sales growth in both International and the UK, with particularly strong growth in Food.

Total revenue %	Q1	Q2	Q3	Q4	FY
UK					
Clothing	-5.0	0.2	-2.1	-2.6	-2.4
Home	-6.1	-1.4	-2.5	1.4	-2.2
General Merchandise	-5.1	0.1	-2.2	-2.2	-2.4
Food	2.9	3.9	2.7	6.3	3.9
Total UK	**-0.9**	**2.1**	**0.3**	**2.6**	**0.9**
International*	**0.9**	**6.1**	**4.1**	**7.0**	**4.5**
Total Group*	**-0.7**	**2.5**	**0.6**	**3.1**	**1.3**

Like-for-like revenue %	Q1	Q2	Q3	Q4	FY
UK					
General Merchandise	-6.8	-1.8	-3.8	-3.8	-4.1
Food	0.6	1.6	0.3	4.0	1.7
Total UK	**-2.8**	**0.0**	**-1.8**	**0.6**	**-1.0**

* At constant currency

UK revenues were up 0.9% in total with a like-for-like decrease of 1.0%. We added 2.8% of space, 2.6% in General Merchandise and 3.1% in Food, on a weighted average basis.

International revenues were up 0.9%, (4.5% on a constant currency basis). Our owned businesses in India and China delivered a strong performance, driven by good like-for-like growth and the opening of new space. Similarly, our franchise business continued to perform well, especially the Middle East region which delivered strong growth. Despite continuing tough trading conditions impacting the full year performance in the Czech Republic and the Republic of Ireland, there was an improvement in trend in the second half of the year.

Operating profit

Underlying operating profit was £781.6m, down 3.5%.

In the UK, underlying operating profit was down 2.2% at £661.4m. Gross margin was up 10bps at 40.9%. General Merchandise gross margin was up 45bps at 51.8% as a result of improved markdown management and ongoing sourcing initiatives, which more than offset input cost pressures from areas such as wages. Food gross margin was up 35bps at 31.7% due to improved buying, combined with better management of promotional spend offsetting commodity price inflation.

Underlying UK operating costs were up 1.8% to £3,049.8m. A breakdown of the costs is shown below:

	52 weeks ended 30 March 2013 £m	31 March 2012 £m	% variance
Retail staffing	**928.9**	889.2	+4.5
Retail occupancy	**1,030.7**	1,030.9	–
Distribution	**405.1**	398.1	+1.8
Marketing and related	**155.3**	161.8	-4.0
Support	**529.8**	515.0	+2.9
Total	**3,049.8**	2,995.0	+1.8

Retail staffing costs increased due to investment made in delivering customer service and increased space together with the impact of the annual pay review.

Occupancy costs were level on the year with increases from rent, rates and utilities offset by a decrease in depreciation.

Distribution costs continue to be managed tightly despite inflationary pressure and volume increases in Food and Multi-channel, as we continued to see the benefits of initiatives to improve supply chain efficiency.

The reduction in Marketing and related costs reflects more effective use of marketing spend within both Foods and GM.

Increase in support costs reflect the impact of annual pay increases and higher pension costs associated with auto-enrolment, which will continue into the coming year.

The underlying UK operating profit includes a contribution from the Group's continuing economic interest in M&S Bank of £51.1m, last year £50.7m.

International underlying operating profit was down 9.9% (down 10.9% on a constant currency basis). Franchise operating profits were down 3.9% to £106.3m, with our European franchise partners' trading environments impacting on their business. Owned store operating profits were down 39.0% to £13.9m, due to continued macroeconomic pressures in Europe combined with initial start-up costs in priority markets.

Non-underlying profit items

	52 weeks ended	
	30 March 2013 £m	31 March 2012 £m
Strategic programme costs	**(6.6)**	(18.4)
Restructuring costs	**(9.3)**	–
Impairment of assets	**–**	(44.9)
Fair value movement of put option over non-controlling interest in Czech business	**–**	15.6
Fair value movement of embedded derivative	**5.8**	(0.2)
Fair value movement on buy back of the Puttable Callable Reset medium-term notes	**(75.3)**	–
Reduction in M&S Bank income	**(15.5)**	–
Total non-underlying profit items	**(100.9)**	(47.9)

Strategic programmes incurred £6.6m of costs in the year which are not part of the normal operating costs of the business. These include brand segmentation and business integration costs, asset write-offs and accelerated depreciation. The cumulative strategic programme costs incurred since the strategy was announced is now £41m, of the c. £50m we announced in 2010.

Restructuring costs relate to the Group strategy to transition to a one tier distribution network and the associated closure costs of legacy logistics sites.

The fair value movement on the embedded derivative is driven by an increase in the expected RPI rate.

The fair value movement on the buy back of Puttable Callable Reset medium-term notes relates to a one-off finance charge resulting from the cancellation of bonds issued in 2007. These bonds included a coupon rate reset after five years based on a fixed underlying 25 year interest rate. In light of continued low long-term market interest rates and the successful £400m bond issuance in December 2012, the Group decided to buy back and cancel these bonds.

The reduction in the fee income received from M&S Bank is due to M&S Bank's potential redress to customers in respect of possible mis-selling of financial products. This reduction in fee income is expected to continue in the current year and amount to a further c.£45m. We are discussing with HSBC whether these charges are properly for our account under the terms of our agreement.

Net finance costs

	52 weeks ended	
	30 March 2013 £m	31 March 2012 £m
Interest payable	**(125.3)**	(135.6)
Interest income	**5.3**	7.1
Net interest payable	**(120.0)**	(128.5)
Pension finance income (net)	**21.2**	25.6
Unwinding of discount on partnership liability	**(16.6)**	–
Unwinding of discounts on financial instruments	**(1.0)**	(1.2)
Underlying net finance costs	**(116.4)**	(104.1)
Fair value movement of put option over non-controlling interest in Czech business	**–**	15.6
Fair value movement on buy back of the Puttable Callable Reset medium term notes	**(75.3)**	–
Net finance costs	**(191.7)**	(88.5)

The net interest payable was down 6.6% at £120.0m as a result of the lower cost of funding of 5.9% (last year 6.5%). Underlying net finance costs were up £12.3m to £116.4m due to the unwinding of discount on the Partnership liability and a reduction in pension income.

Taxation
The full year effective tax rate on underlying profit before tax was 22.7% (last year 24.5%).

Underlying earnings per share
Underlying earnings per share decreased by 6.3% to 32.7p per share. The weighted average number of shares in issue during the period was 1,599.7m (last year 1,579.3m).

Dividend
The Board is recommending a final dividend of 10.8p per share. This will result in a total dividend of 17.0p, in line with last year. The Board's dividend policy remains unchanged; a progressive policy with dividends broadly twice covered by earnings.

Capital expenditure

	52 weeks ended	
	30 March 2013 £m	31 March 2012 £m
Focus on the UK	**197.4**	71.6
Multi-channel	**75.3**	42.8
New stores	**94.1**	170.4
Store modernisation programme	**85.7**	73.6
International	**53.7**	61.9
Supply chain and technology	**247.2**	212.7
Maintenance	**67.9**	104.5
Total capital expenditure	**821.3**	737.5

We continued to invest in our UK stores in order to create a more inspiring environment. The new concept had been rolled out to 337 stores at the year end. Our programme set out in November 2010 will complete during the current financial year.

Our commitment to improving multi-channel capabilities remains a priority with the development of our new multi-channel platform and the launch of five new in-country websites, and a dotcom presence in China. We now trade online locally in 10 countries.

We added 2.8% of selling space in the UK (on a weighted average basis), trading from 16.4m square feet at the end of March 2013. We opened a net 35 new stores during the year, including our flagship store in Cheshire Oaks. In our International business, space increased by c.16%, predominantly in our key strategic territories of India, China, the Middle East and Russia.

We continued to invest in our supply chain and technology in line with our strategy to build an infrastructure fit to support the future growth of the business.

Cash flow and net debt

	52 weeks ended	
	30 March 2013 £m	31 March 2012 £m
Underlying EBITDA	**1,244.8**	1,280.1
Working capital	**72.3**	161.9
Pension funding	**(70.9)**	(89.9)
Capex net of disposals	**(829.7)**	(720.7)
Interest and taxation	**(235.3)**	(277.3)
Dividends and share issues/purchases	**(248.4)**	(236.7)
Net cash (outflow)/inflow	**(67.2)**	117.4
Opening net debt	**(1,857.1)**	(1,900.9)
Exchange and other movements	**(84.0)**	(1.7)
Property partnership liability	**(606.0)**	(71.9)
Closing net debt	**(2,614.3)**	(1,857.1)
Property partnership liability pro-forma adjustment[1]	**–**	(603.1)
Closing adjusted net debt[1]	**(2,614.3)**	(2,460.2)

1 The property partnership liability pro-forma adjustment to net debt in the prior year reflects the calculated fair value of the property partnership liability using a consistent interest rate in the discounted cash flow model with that as at 21 May 2012 when the terms of the property partnership were changed.

The Group reported a net cash outflow of £67.2m (last year inflow £117.4m). This outflow reflects a 3% decline in underlying EBITDA, a lower working capital inflow and higher capital expenditure.

Net debt was £2,614.3m, an increase of £757.2m on last year as a result of the change in terms of the property partnership with the pension fund. Adjusting for this, net debt was £154.1m higher than last year.

The May 2012 bond matured in the period, and was refinanced from existing facilities and operating cash. Our funding strategy continues to ensure a mix of funding sources and tenor of maturity to provide cost effectiveness and flexibility to match the requirements of the business.

Pensions

At 30 March 2013 the IAS 19 net retirement benefit surplus was £193.0m (last year £78.0m). The market value of scheme assets increased by £743.6m, due to improved asset performance and company contributions. The present value of the scheme liabilities has increased by £628.8m due to a reduction in the discount rate. Our hedging strategy adopted since 2010 continued to reduce significant fluctuations between scheme liabilities and assets.

A full actuarial valuation of the UK Defined Benefit Pension Scheme was carried out at 31 March 2012 and showed a deficit of £290m. A funding plan of £112m 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.

Governance

Chairman's overview

"The Board is the guardian of the M&S brand, its reputation and stakeholder relationships."

Robert Swannell
Chairman

For many decades M&S has based its core values around Quality, Value, Service, Innovation and Trust. These values have played a key role in underpinning the integrity of our products, brand and way of doing business, giving M&S a real point of difference and special culture.

We see these values as key to the way we work with our customers, our suppliers and our colleagues across the business. They go to the heart of how we try to behave as an organisation. As a Board these values support and inform the way we review and debate our plans and ensure the right environment for decision-making and challenge in all areas of strategy, performance, responsibility and accountability.

Our values are recognised across the business. They are fundamental to Plan A which celebrated its fifth year this year and which simply could not have taken root in the way it has at M&S without an existing culture that embraced it. Plan A is not a disembodied CSR programme; it is a whole company way of doing business.

As a Board how can we use these values to our advantage? How can we ensure that we remain trusted and respected not only for what we do and the integrity of the decisions we make, but how we take those decisions? Do we as a Board set a clear example from the top which will reinforce a culture of trust and integrity in line with our values and ensure our future success? These are questions for many organisations and those in positions of leadership and trust.

Our values were tested in January when elements of our Interim Management Statement appear to have been leaked to the press. The implied breach of trust or carelessness was felt profoundly in the organisation. We were determined that a thorough, independent investigation was required of the leak and of our process and controls and that we would learn from our findings. The level of support for this action across the business highlighted just how strongly the team felt about the relevance of trust and integrity, not only for the company and the brand but also towards our fellow colleagues. The findings of the investigation have now been discussed by the Board and appropriate measures implemented.

These values were also highlighted when the integrity of our product and trust in our supply chain in Food meant that we were not impacted by the horsemeat scandal. We have discussed our processes and controls in this area in our Board and Audit Committees meetings over the past year and recognise the hard work of our Food team in building strong relationships and knowledge of our suppliers. In this way we have ensured, so far as we can, the quality and integrity of our product from farm to fork so that customers can trust us for what we sell. Our deep-rooted values demonstrated their worth in guiding the principles for how we do business and if we continue to respect these, they should continue to support us for the longer term.

This year's report – key activities

Following the positive feedback we received around the level of openness relating to our Board activities and debate last year, this year we are providing:

- enhanced integration across the report;
- greater insight into our Board strategy discussions;
- further disclosure from our Audit Committee, including detail on our audit tenure discussions;
- greater depth to our remuneration disclosure and targets;
- more information and insight from our Nomination Committee including debate around succession and a full response to our diversity policy.

As a Board we regularly discuss and review:

- our performance today and our progress towards our goal to become an international multi-channel retailer
- our brand and reputation and how we can ensure our behaviours and processes protect us for our future
- our people, and how we can create a high performing team, potential for future development and succession along with appropriate motivation and reward
- our customers, suppliers and local communities ensuring we treat them all fairly and respectfully
- our shareholders and how we can communicate openly on the way we manage and challenge the business
- Plan A and our plan to become the world's most sustainable major retailer

These all reflect the considerations for directors as referenced in the Companies Act and which our directors know they are trusted to consider on behalf of all stakeholders.

At a time when breaches of corporate trust and integrity are under the spotlight, resulting in ever greater scrutiny, regulation and control, we believe our values could not be more relevant, essential and valuable to sustain us for our long-term future. Commentators recognise when trust and integrity are lost but often attribute little credit to those who do their best to instil and uphold high standards.

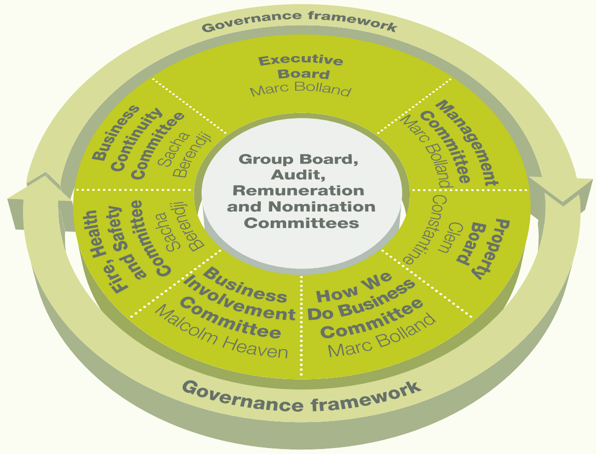
We continually try to find an appropriate balance between the myriad factors upon which we, as a Board, must focus. These range from our key commercial issues and our long term strategy, to our response to enhanced governance processes and reporting.

While the increase in scrutiny is sometimes testing, we welcome the opportunity for clear challenge and frank dialogue with our stakeholders. We were pleased that our governance event was so well attended by investors and a wide range of shareholder representative bodies, keen to engage with us on a range of issues relating to our Board process, management of risk, approach to remuneration and our progress to become the world's most sustainable major retailer. This year we have also undertaken many more investor events to communicate our progress on key aspects of our strategy. We believe that greater levels of stewardship and engagement enable better understanding about the issues we face and our deliberations on them, as they relate to our business and people.

We welcome calls for greater openness and transparency on Board deliberations, which in turn challenge us to plan our agendas to maximise our impact, look at the way we do things and reflect on the quality of the decisions we have made. We have worked hard to build an engaged, trusted team and an environment where we can all be honest and direct about what we have done well and where we can do better.

We will not get everything right all of the time, but will learn where we make mistakes – our annual Board evaluation assists us in highlighting areas in which improvements can be made. Last year we made good progress in achieving our plans, including hosting our first Board meeting in Turkey.

Our Committees and Committee Chairmen



For more on our Governance framework go to **marksandspencer.com/thecompany**

This year, our Action Plan again sets out specific objectives to improve our Board performance. Some of these are now part of a longer term journey, but all aim to enable the right environment for debate and reflection on the quality of our decisions. These should enhance and underpin trust and sustain our values longer term.

We do not see governance therefore as simply a box-ticking exercise, nor as a generality related to processes or control. We see it more about testing whether we do the right things, in the right way, ensuring we have the right safeguards, checks and balances in place and that the right considerations underpin every decision we take. We believe that this practical approach will support our performance for the long-term and protect the trust, integrity and value of our business and our brand.

UK Corporate Governance Code

The UK Corporate Governance Code 2010 (the 'Code') remained the standard against which we were required to measure ourselves throughout 2012/13. We are pleased to confirm that we complied with all of the provisions set out in the Code for the period under review. We remain committed to the very highest standards of corporate governance and as such have benchmarked ourselves against the UK Corporate Governance Code 2012 which we are not formally required to report against until 2014. We already comply with a significant number of the additional provisions and expect to be fully compliant by 2013/14.

To see how we comply with the Code go to the investor section of **marksandspencer.com/thecompany**
Those with a QR reader can use the link on the bottom right of this page

The required regulatory and governance assurances are provided throughout this report. As in previous years, we have sought to provide a genuine understanding of how governance supports and protects the M&S business in a practical way. We use the key themes of the Code as the framework for articulating this narrative. Feedback from shareholders has encouraged us to keep a similar format to previous years so our approach to **Leadership** is outlined on pages 42 to 43, **Effectiveness** on 44, **Accountability** on 45 to 48, **Engagement** and relations with shareholders on 49 to 50, **Remuneration** on 55 to 70 and the Governance of our **Pensions Scheme** on 71.

Our Governance Framework is reviewed every year and sets out the roles, accountabilities and expectations for our directors and our structures. This format has been adopted widely across the business and can be viewed in the 'Investors' section of marksandspencer.com/thecompany.

Appointments and succession

The Nomination Committee has continued to work on ensuring appropriate succession and mix amongst both the executive and non-executive directors. We have set out our ambitions and objectives in shaping the Board for the future in our Board Diversity Policy. We are conscious that, following Kate Bostock's departure and the subsequent appointments of Steve Rowe and Andy Halford, the percentage of women on the Board has fallen to 21% this year, below our target of 30%. However, this will increase to 23% following Jeremy Darroch's departure from the Board on 19 June 2013. We remain committed to our target and advocating the role women play at the top of organisations and at M&S in particular. However, we continue to make appointments based on objective criteria to ensure we appoint the best individuals with diverse experience and background for the role.

In July 2012, we announced that Kate Bostock would be leaving M&S after eight years. In September, John Dixon was appointed Executive Director, General Merchandise, moving across from his previous role in Food. Steve Rowe, previously Director of Retail, was appointed to the Board to succeed John as Executive Director, Food.

As part of our succession planning, in December we announced that Jeremy Darroch would be leaving M&S in 2013, after seven years on the Board and as Chairman of our Audit Committee. We appointed Andy Halford as non-executive director in January and he will succeed Jeremy as Chair of the Audit Committee in June 2013. At that time we also announced that Steven Holliday will remain on the Board for a further year, stepping down at the 2014 AGM, by which time he will have served ten years on the Board. This will allow us to phase the change in Chairman of these two important Committees. In spite of the proposed length of Steve's tenure, the Board is confident that he will continue to provide strong and independent oversight to Board debate while continuing to bring his significant experience, knowledge and leadership to the Chairmanship of the Remuneration Committee. More detail on the Board's debate and assessment of Steve's independence is outlined on page 44.

On 21 May, we announced that Steven Sharp, Executive Director Marketing, will be retiring from the business. He will step down from the Board following the AGM and will continue as Creative Director until 28 February 2014. Patrick Bousquet-Chavanne will take over responsibility for marketing and will be put forward for election to the Board as Executive Director, Marketing and Business Development at the 2013 AGM.

The Nomination Committee has also reviewed our future talent pool and longer-term succession potential. The Committee's activities are outlined in detail on page 53.

In supporting this debate on talent and future leadership for the business, the Remuneration Committee has continued to develop and test the setting and disclosure of objectives and targets. These are highlighted in further detail on page 62. In line with last year, the Committee has also been an active voice in a number of formal consultations and engaged with shareholders and shareholder representative bodies on the broader UK remuneration debate and need for greater transparency.

Monitoring risk

In view of our longer term ambitions and the significant business initiatives currently underway across the business, the Audit Committee has played a substantial role in ensuring appropriate governance and challenge around our risk and assurance processes. This is covered in further detail on page 45.

Overall, I am pleased with the Board's activity across the governance agenda, some of which is highlighted on the following pages. Further detail is available on our website. We continue to challenge ourselves and the business and to reflect and learn from our decisions and debate.

Robert Swannell
Chairman

Board of directors

Robert Swannell
Chairman
Appointed: Non-executive director in October 2010 and Chairman in January 2011.
Experience: Robert is a Chartered Accountant and Barrister. He possesses a wealth of knowledge of many different business sectors, banking and the City acquired over a 33 year career in investment banking and extensive government and regulatory experience from roles with BIS, the Take-Over Appeal Board and the FCA. His significant board experience covers a diverse range of industries including retail, private equity and real estate. His leadership in the area of governance continues to promote robust debate and drive a culture of openness in the boardroom. Robert was previously Senior Independent Director of both British Land and 3i Group and Chairman of HMV.
Other roles: Chairman of Governing body of Rugby School, Trustee of Kew Foundation.
Committees: Nomination (Chairman)

Marc Bolland
Chief Executive Officer
Appointed: May 2010
Experience: Marc joined M&S from Morrisons where, as CEO, he successfully led the development and implementation of its long-term strategy. Prior to this, Marc built up significant consumer marketing and international experience at Heineken NV, which he joined in 1987. He was appointed to Heineken's Board in 2001, with responsibility for global marketing and the regions of Western Europe, the USA, Latin America and North Africa, becoming Chief Operating Officer in 2005. As CEO, Marc continues to work with the Board in developing and implementing our strategy to become an international, multi-channel retailer.
Other roles: Non-executive director of Manpower Inc, USA, Honorary Vice President of UNICEF UK and Director of the Consumer Goods Forum.
Committees: Nomination

Alan Stewart
Chief Finance Officer
Appointed: Oct 2010
Experience: Alan brings extensive corporate finance and accounting experience in highly competitive industries as varied as retail, travel and banking. Alan joined M&S from the aircraft leasing company AWAS Aviation Capital, where he was Chief Financial Officer. Alan previously spent nine years in investment banking at HSBC before joining Thomas Cook in 1996, where he held a number of senior roles including Chief Executive of Thomas Cook UK and Group Chief Financial Officer of Thomas Cook Holdings. Following his appointment as Group Finance Director of WH Smith plc in 2005, Alan played a central role in improving the Group's financial performance. He was previously a non-executive director of Games Workshop Group plc.

John Dixon
Executive Director, General Merchandise
Appointed: Oct 2012
Experience: John has a wide range of retail and product experience acquired from across the business. John began his career with M&S in store management in 1986 before moving to Paris, where he spent three years in various commercial roles at M&S' European stores and Paris Head Office. He joined the UK Head Office as a Food Buyer before progressing to Category Manager for Fresh Produce. John has held a range of senior roles including Executive Assistant to the Chief Executive, Director of M&S Direct and Director of Home. He became Director of Food in July 2008 and was appointed Executive Director, Food in 2009, moving to Executive Director, General Merchandise in October 2012.

Laura Wade-Gery
Executive Director, Multi-channel E-commerce
Appointed: July 2011
Experience: Laura has considerable retail and consumer experience, including significant e-commerce knowledge acquired from her previous roles at Tesco plc, including Chief Executive Officer of Tesco.com and Tesco Direct. Laura continues to drive the improvement and modernisation of our e-commerce and multi-channel capabilities. She was previously a non-executive director of Trinity Mirror plc and has held a variety of roles at Gemini Consulting and Kleinwort Benson.
Other roles: Trustee of Royal Opera House Covent Garden Limited, Member of the Government's Digital Advisory Board and a Trustee of Aldeburgh Music.

Steve Rowe
Executive Director, Food
Appointed: Oct 2012
Experience: Steve joined M&S in 1989 and progressed through a variety of roles within store management before moving to Head Office in 1992. He has acquired considerable experience from senior positions across the Group. Steve spent seven years in Menswear, during which he held a number of roles including Head of Merchandising, prior to his appointment as Director of Home in 2004. He was appointed Director of Retail in 2008 and Director of Retail and E-commerce in 2009, briefly reverting to Director of Retail in 2011 before his appointment to the Board in 2012.
Other roles: Director, Strategic Board of the New West End Company.

Jan du Plessis
Senior Independent Director
Appointed: Non-executive director in 2008 and Senior Independent Director in March 2012.
Experience: Jan has considerable business and brand experience having sat on the boards of several leading companies across a range of industries. Jan was formerly Chairman of British American Tobacco plc and a non-executive director of Lloyds Banking Group. He was Group Finance Director of Richemont, the Swiss luxury goods group, until 2004 and Chairman of RHM from 2005 until its takeover by Premier Foods in 2007. Jan is a South African Chartered Accountant.
Other roles: Chairman of Rio Tinto.
Committees: Audit, Nomination, Remuneration

Vindi Banga
Non-executive director
Appointed: Sept 2011
Experience: Vindi has extensive consumer brand knowledge and global business experience, acquired over 33 years in senior roles within the consumer goods industry at Unilever plc, including President of the Global Foods, Home and Personal Care businesses and as a member of the Executive Board. Vindi was previously Chairman and Managing Director of Hindustan Lever Limited. He is the recipient of the Padma Bhushan, one of India's highest civilian honours.
Other roles: Partner at Clayton Dubilier & Rice, non-executive director of Thomson Reuters and Maruti Suzuki India, Board member of B&M Retail and a member of the Prime Minister of India's Council of Trade and Industry.
Committees: Nomination, Remuneration

Miranda Curtis
Non-executive director
Appointed: Feb 2012
Experience: Miranda brings a wealth of experience of the international consumer and technology sectors and extensive knowledge of the global broadband cable industry. During Miranda's 20-year career with Liberty she led the company's investments in digital distribution and content operations across Continental Europe and Asia-Pacific, most notably in Japan. She was previously a non-executive director of National Express Group plc.
Other roles: Chairman of Waterstones, non-executive director of Liberty Global, board member of both the Institute for Government and the Royal Shakespeare Company, Deputy Chairman of Garsington Opera and Vice Chairman of African girls' education charity, Camfed.
Committees: Nomination, Remuneration

Independent

Martha Lane Fox
Non-executive director
Appointed: June 2007
Experience: Martha brings extensive experience in the successful operation of online and consumer facing businesses. Her input continues to challenge and influence the development of our multi-channel strategy. Martha co-founded lastminute.com in 1998, taking it public in 2000 and selling it in 2005. Martha was awarded a CBE in 2013 and was appointed a crossbench peer in the House of Lords in March 2013.
Other roles: UK Digital Champion, chair of Go On UK, MakieLab, Founders Forum for Good and the Government's Digital Service Advisory Board. Co-founder and chair of Lucky Voice, non-executive director of MyDeco.com, the Women's Prize for Fiction and founder of her own charitable foundation, Antigone.
Committees: Audit, Nomination

Steven Sharp
Executive Director, Marketing
Appointed: Nov 2005
Experience: After nine years at M&S Steve will be retiring from the business. Therefore he will not be standing for election this year and he will step down from the Board following the AGM on 9 July 2013. Steve will continue to work in the business as Creative Director until 28 February 2014. Steve has built up extensive marketing experience over a career that began when he joined Bejam as a Marketing Manager in 1978. He progressed to the Argyll Group and moved to ASDA in 1987, where he became Marketing Director. Steve's other senior marketing roles have included the Burton Group, Booker plc and Arcadia Group plc. He joined M&S in 2004.
Other roles: Non-executive director of Adnams plc, Fellow of the Chartered Institute of Marketing, The Marketing Society and The Royal Society of Arts and a Visiting Professor of Glasgow Caledonian University.

Andy Halford
Non-executive director
Appointed: Jan 2013
Experience: Andy brings invaluable international, consumer and digital experience, as well as a strong finance background. He joined Vodafone in 1999 as Financial Director of Vodafone Limited, becoming Financial Director for Vodafone's Northern Europe, Middle East and Africa Regions in 2001. He was previously Chief Financial Officer of Verizon Wireless in the US and Group Finance Director of East Midlands Electricity plc. Andy is a former Chairman of The Hundred Group of Finance Directors in the UK. He is a Fellow of the Institute of Chartered Accountants in England and Wales.
Other roles: Chief Financial Officer of Vodafone Group plc and a member of the Board of Representatives of the Verizon Wireless Partnership.
Committees: Audit (Chairman Designate), Nomination

Jeremy Darroch
Non-executive director
Appointed: 2006, Jeremy will step down from the board on 19 June 2013.
Experience: Jeremy has considerable expertise in the consumer retail environment built up over a successful career at some of the UK's most high profile organisations. A qualified Chartered Accountant, Jeremy spent 12 years in a range of roles at Proctor and Gamble, including European Finance Director for their Healthcare division. He was Group Finance Director and Retail Director at Dixons Retail before his move to British Sky Broadcasting in 2004, where he was appointed Chief Financial Officer, later becoming CEO in 2007. Jeremy will step down from the Board of M&S on 19 June 2013.
Other roles: CEO of British Sky Broadcasting.
Committees: Audit (Chairman), Nomination

Steven Holliday
Non-executive director
Appointed: July 2004
Experience: Our longest serving non-executive director, Steve has extensive knowledge of corporate business and has held a variety of senior executive and boardroom level roles within the challenging utility and oil and gas industries. He spent 19 years with Exxon and was an executive director of British Borneo Oil and Gas before joining National Grid as Group Director, UK and Europe in 2001 and became CEO in 2006. His international experience includes a four year spell in the US and he has developed business opportunities in countries including China, Brazil, Australia and Japan.
Other roles: Group CEO of National Grid; Chairman of both Board of Trustees of homeless charity Crisis and Business In The Community's Talent and Skills Leadership Team.
Committees: Audit, Nomination, Remuneration (Chairman)

Patrick Bousquet-Chavanne
Executive Director, Marketing and Business Development
Appointed: Following the AGM on 9 July 2013
Experience: Patrick joined M&S in September 2012 as Director of Strategy implementation and Business Development and has played a key role in creating the new marketing strategy for Womenswear. Patrick's extensive experience of the consumer goods industry was built up over a career spanning more than 25 years, with 15 years spent in senior global brand management positions in London, Paris and New York. He joined Estée Lauder in 1989 as Vice President and General Manager of Aramis International and was appointed to Lauder's executive committee in 1998. Patrick became Group President of the Estée Lauder Companies in 2001, stepping down in 2008 to pursue opportunities in the internet and new technology fields.
Other roles: Non-executive director of Brown-Forman Inc

Board diversity

This year we continued to make progress in shaping our Board for the future, ensuring that diversity, in its broadest definition, is at its heart. From a practical perspective, our focus on diversity means we look hard at our mix of skills and experience. New Board appointments will always seek to complement these as well as ensuring that a good balance of skill set, international experience and gender is maintained.

Our policy on page 54 summarises our views and sets out our ambitions with regard to diversity and what this means for our business, customers and stakeholders.

Board experience

Retail
93%

Consumer
100%

Finance
36%

E-commerce & technology
29%

International

Women on the board*
21%

Executive
17%

Non-executive
25%

Executive recruitment

Internally
33%

Externally
67%

Non-executive Board tenure

0–1 years
12%

1–3 years
38%

3–6 years
25%

6–9 years
25%

***Women on the Board will increase to 23% following Jeremy Darroch's departure on 19 June 2013.**

Amanda Mellor
Group Secretary and Head of Corporate Governance
Appointed: July 2009
Other roles: Non-executive director of Kier Group plc.

Leadership

The Board in action

The Board took the opportunity as part of its strategy days in 2012/13 to visit some key operations and projects around the business.

← Strategy meeting at Castle Donington
The board discussed progress of the new end-to-end supply chain and strategic IT programmes, toured the new distribution centre and reviewed the new Marks & Start Logistics initiative.

"The Board devoted considerable attention to the key strands of the strategy, including visits to Cheshire Oaks, Castle Donington and Istanbul."

Robert Swannell
Chairman

The role of the Board

The Board's primary responsibility is to promote the long term success of the Company by creating and delivering sustainable shareholder value. The Board seeks to achieve this through setting out its strategy, monitoring its strategic objectives and providing oversight of its implementation by the management team. In establishing and monitoring its strategy, the Board considers the impact of its decisions on wider stakeholders including employees, suppliers and the environment.

A number of key decisions and matters are reserved for the Board's approval and are not delegated to management. These include matters relating to the Group's strategy, approval of major acquisitions, disposals, capital expenditure, financial results and overseeing the Group's systems of internal control, governance and risk management. The Board delegates certain responsibilities to its committees, to assist it in carrying out its functions of ensuring independent oversight. These committees are made up of independent non-executive directors and play a key role in supporting the Board. The Chairmen of the Audit, Nomination and Remuneration Committees provide updates on their activities during the year later in this report.

A full schedule of matters reserved for the Board's decision along with the terms of reference of the Board's key committees and the individual roles of the Board members can be found in the Group's formal Governance Framework available to view online at marksandspencer.com/thecompany

The Board meets regularly throughout the year. There were 11 scheduled meetings this year including two strategy meetings, where the non-executive directors contributed their expertise and independent oversight into the development of the strategy. Sufficient time is given at the end of each Board meeting for the Chairman to meet privately with the Senior Independent Director and the non-executive directors to discuss any matters. Details of individual Board directors' attendance at meetings in 2012/13 are set out in the table to the right.

Progress against strategy

The Board spent a great deal of its time together in 2012/13 focused on monitoring its key strategic objectives around International, Supply Chain and Multi-channel, reviewing progress against the three-year plan, challenging key strategic investments and initiatives and reviewing the Company's capital structure. The Board held two strategy awaydays during the year, to ensure it continued to challenge, test and develop its strategy of becoming an international multi-channel retailer. The first of the meetings was held in October 2012 and gave the Board the opportunity to visit the Company's new distribution centre in Castle Donington, a key component of our multi-channel ambitions. This was combined with a visit to our new Plan A sustainable store at Cheshire Oaks, where key elements of our new store design were in place. In February 2013 the Board met in Istanbul, Turkey to review and debate progress of the International strategy, which included meeting the Company's franchise partner in the region to understand more about their ambition and vision. The Board also visited a number of local stores around Istanbul and toured the regional sourcing hub to gain a more detailed understanding of the GM supply chain.

	Board meetings		Percentage attended
Name of Director	A	B	
Chairman			
Robert Swannell	11	11	100%
Chief Executive			
Marc Bolland	11	11	100%
Executive directors			
Kate Bostock (resigned 30 September 2012)	4	4	100%
John Dixon	11	11	100%
Steve Rowe (appointed 1 October 2012)[1]	8	8	100%
Steven Sharp[2]	11	10	90%
Alan Stewart	11	11	100%
Laura Wade-Gery[3]	11	10	90%
Non-executive directors			
Vindi Banga	11	11	100%
Miranda Curtis[4]	11	10	90%
Jeremy Darroch (Retires 19 June 2013)	11	11	100%
Martha Lane Fox[5]	11	10	90%
Andy Halford (appointed 1 January 2013)	3	3	100%
Steven Holliday	11	11	100%
Jan du Plessis	11	11	100%

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

B = Number of meetings the director actually attended.

1) Steve Rowe attended the Board meeting on 5 September 2012 as part of his induction ahead of his appointment to the Board on 1 October 2012.

2) Steven Sharp was unable to attend the Board meeting on 13 March 2013 due to illness.

3) Laura Wade-Gery was unable to attend the Board meeting on 20 June 2012 due to personal commitments.

4) Miranda Curtis was unable to attend the Board meeting on 2 May 2012 due to prior business commitments with Liberty Global.

5) Martha Lane Fox attended all scheduled board meetings, however was unable to attend an additional Board Conference Call on 23 November due to illness.

Monitoring risk

The Board has continued to debate and develop its understanding of risk, risk appetite and tolerance, testing how we can best maximise the opportunities for us to grow the business.

Protecting the business from operational and reputational risk is an essential part of the Board's role. In line with our action plan, and supported by the Audit Committee, we have continued to drive a better understanding of the risks we face, further developed and tested our tolerance and appetite for risk and ensured our Group Risk Profile continues to robustly reflect the business' strategic objectives and opportunities. We have carried out a full review of internal controls, with a particular focus on processes and controls around confidential information following the leak of elements of the Q3 Interim Management Statement.

Visit to Cheshire Oaks Store

The second part of the October strategy day. The Board discussed the development of Plan A, the store modernisation programme and held a session on the future of retail. The Board met with engineers and toured the store, one of our first Plan A sustainable learning stores, to understand some of the specific environmental initiatives undertaken in the build.

Strategy meeting in Istanbul

The Board met in Istanbul in February to review and discuss the International strategy. The directors met with our franchise partners in the region, the regional sourcing team and visited a number of stores in Istanbul. The Board received presentations on the regional sourcing strategy and key growth plans.

Oversight of succession

Securing succession and developing leadership of future talent have once again been key considerations for the Board. A number of significant changes were made to the Board and senior management during the year to bring further strength and expertise to the executive team and ensure continued independent oversight. Both new appointments to the Board were made against objective criteria and in line with the Board's diversity policy which we introduced last year. We have reported our progress against the policy on page 54. Tailored induction programmes were provided to both executive and non-executive directors, details of which can be found on our corporate website, marksandspencer.com/thecompany.

The development of the senior leadership team across the business has continued, with all of the Top 100 employees having now completed our flagship leadership development programme, Lead to Succeed. We have introduced a Leadership Development Service, a personalised coaching service, which recognises the specific needs of individuals and addresses them through a tailored set of initiatives. One such initiative is the facilitating of non-executive roles outside M&S for key individuals who we believe would benefit from gaining valuable Board experience.

Our MBA Leadership Programme, which aims to recruit and develop talented MBA graduates from a range of international business schools, towards senior management and leadership roles in ambitious timescales, is proving an effective way of developing talented international leaders with experience across a range different industries. A balance of developing our internal talent while accessing key external talent where necessary is enabling us to build a stronger and more dynamic pool of leaders across the business.

Board activity 2012/13

The Board's key priority this year was providing oversight of and challenge to the progress of its strategy to be an international multi-channel, retailer. Key activities for the Board during the year included

Marks & Spencer Governance

Board discussion

Marks & Spencer Governance

Leadership and employees
- Discussed changes in the composition of the Board and its Committees;
- Considered succession planning and approved the appointment of a new executive director and one new non-executive director.
- Reviewed employee engagement across the business – Annual 'Your Say' survey and quarterly pulse surveys; received updates on initiatives taking place across the Company including the BIG Idea, director presentations, roundtable director discussions and Women in Business forums.
- Discussed and reviewed high potential talent across the business, held non-executive director lunches with successional and high performing senior management.

Customers
- Debated and challenged performance in Womenswear. Received and considered updates on the new GM strategy and initiatives across Womenswear.
- Received regular updates from the Customer Insight Unit on the economic environment, the retail sector, competition and customers.
- Considered and approved the launch of M&S Bank current accounts and an in-store branch network.

Strategy
- Two strategic awaydays:
  - i) October 2012: Reviewed investments in the new supply chain programme, considered the future of multi-channel and shopping channels, reviewed the store modernisation programme and the impact and future development of Plan A. Included visits to Castle Donington distribution centre and Cheshire Oaks store.
  - ii) February 2013: Held in Istanbul, it provided an opportunity for the Board to meet our franchise partner and review, discuss and develop the International strategy.
- Reviewed the new strategy in GM and the structural changes made across Womenswear.
- Considered, scrutinised and approved the Group's three year strategic and operating plan.
- Discussed the ongoing store modernisation programme.
- Debated the property strategy and the impact of multi-channel.
- Reviewed the long term funding strategy for the DB pension scheme.

Governance
- Considered, challenged and identified how we continue to manage and monitor risk appetite;
- Reviewed the formal evaluation of the Board and its Committees in 2013, facilitated internally by the Group Secretary.
- Considered, challenged and approved the optimum capital structure for the business.
- Scrutinised and approved a number of capital spending projects.
- Reviewed and challenged the Group's Treasury policies.
- Provided input into the BIS (Business, Innovation & Skills) consultations on the new remuneration and narrative reporting framework.
- Launched an independent investigation into the Q3 leak and reviewed and discussed the recommendations.

Trust and values
- Reviewed and promoted the business values and culture ensuring that they remain relevant and core to the business.
- Considered the impact of the European wide horsemeat scandal on the food industry and M&S.
- Received updates on the Plan A agenda and reviewed initiatives such as the launch of the Shwopping campaign.

Shareholder relations
- Discussed the Annual Independent Investor Audit undertaken by Makinson Cowell.
- Actively engaged our top 20 shareholders and investor bodies at our annual governance event in June 2012 in which the Board invited discussion on matters of concern.
- Discussed our International strategy with investors in Istanbul.
- Engaged retail shareholders at the AGM.
- Helped protect our shareholders by launching a share fraud awareness campaign.

Effectiveness

The annual Board effectiveness review provides a useful opportunity for the Board to take a step back and reflect on their collective and individual effectiveness, consider where improvements can be made and chart progress. This year the Board evaluation was facilitated internally between January and March 2013, by our Group Secretary and Head of Corporate Governance, who has significant insight into both the day-to-day and strategic workings of the Board. This year's internal evaluation follows two years in which an independent externally facilitated Board review has taken place.

Independence of directors

The Board reviews the independence of its non-executive directors as part of the annual Board effectiveness review. The non-executive directors bring a strong independent oversight to the Board and following this year's review the Board considers that all of the non-executive directors continue to demonstrate their independence. Biographical details of each director can be found on pages 40 to 41.

The Chairman is committed to ensuring the Board is made up of a majority of independent non-executive directors who objectively challenge management, balanced against the need to ensure continuity on the Board. In December 2012 we announced that Jeremy Darroch will step down in June 2013 having served seven years on the Board. Andy Halford was appointed to the Board on 1 January as a non-executive director and Chairman designate of the Audit Committee. The Board strongly believes that it is essential to ensure continuity of corporate knowledge and experience to complement and support the new skills and experience brought to the Board by those directors appointed over the last two years. The Board agreed that Steven Holliday, who will have served on the Board for nine years in July 2013, stands for re-election for an additional year at the 2013 AGM. Steve's independence has been subject to particular scrutiny; his detailed knowledge and association with the Group assists him in effectively challenging management and his length of service, when taken in the context of the Group as a whole, enhances his effectiveness as a non-executive director. As a result, the Board believes that Steve remains independent in character and judgement.

How did we approach the Board and Committee Review?

In line with previous years, we took the view that a detailed and focused one-to-one discussion, conducted in person with each director was the most effective way to facilitate a constructive and meaningful conversation. The directors were asked their views on a range of subjects including:

- Board composition and the role of the Board
- Board leadership and culture
- Monitoring of Company performance
- Corporate governance
- The facilitation of the meetings particularly around scope of agendas, quality of papers, degree of challenge and debate.

The Senior Independent Director meets with the non-executive directors at least once a year to review the Chairman's performance. The Senior Independent Director then provides feedback to the Chairman as appropriate.

How are we progressing?

It was clear from the Board review that good progress has been made against the actions the Board set itself last year:

- Continued to strengthen succession at both Board and senior management level. Ensured the Board is comprised of a diverse range of skills and experience, well positioned to challenge and develop the strategy. The appointment of Andy Halford to the Board as a non-executive director and the changes made to the executive team, including the appointment of Steve Rowe to the Board, have been key appointments;
- Engaged with senior management and high potential individuals throughout the year, facilitated through a series of lunches, strategy and investor days;
- Engaged institutional shareholders throughout the year. Our annual governance event held in June 2012 was well attended by both major shareholders and investor bodies. An investor event, addressing our international strategy, was held in Istanbul in February 2013 and was also well attended;
- Ensured director inductions continued to be full and thorough and offer the opportunity to dive into key parts of the business;
- Continued to drive an understanding of the Board's risk tolerance and appetite;
- Made significant progress on planning the long-term framework for Board discussion, allowing more time for fuller, more challenging and strategic debate.

Action Plan 2013/14

The insights gathered from the Board review have highlighted some opportunities which have resulted in a clear action plan for the year ahead. The actions address the key areas of succession, Board oversight and reflection, risk management and information management.

During the year the Board is committed to:

- Continue our work on succession planning with greater focus on high potential individuals and their development in the business, especially below director level;
- Review how we can continue to benefit from the extensive and diverse experience of our non-executive directors;
- Allow for greater review and reflection on the quality of past decisions;
- Given our changing risk profile as we become a leading, international multi-channel retailer, ensure appropriate challenge and debate around risk and approach to risk;
- Board papers: continue to review our information management, content and balance of papers;
- Meetings: consider the balance and content of our agendas to allow greater time for open debate.

Director induction

On joining the M&S Board a full, formal and tailored induction programme is arranged for directors including access to all parts of the business and an opportunity to meet major shareholders.

During the year we appointed Steve Rowe and Andy Halford to the Board. Steve was appointed Executive Director, Food having worked across a significant part of the business over a 23 year career at M&S. Steve's induction was focused specifically on the Board process, including his duties, responsibilities and obligations as a director. Andy Halford's appointment as a non-executive director and Chairman designate of the Audit Committee was tailored specifically around learning the business, its operations, its key markets and risks.

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 Group 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 the Group Board for final approval.

To ensure our risk process drives improvement across the business, the Executive Board monitors the ongoing status and progress of action plans against key risks on a quarterly basis. Risk remains an important consideration in all strategic decision-making at Board level, including debate on risk tolerance and appetite.

Key areas of focus

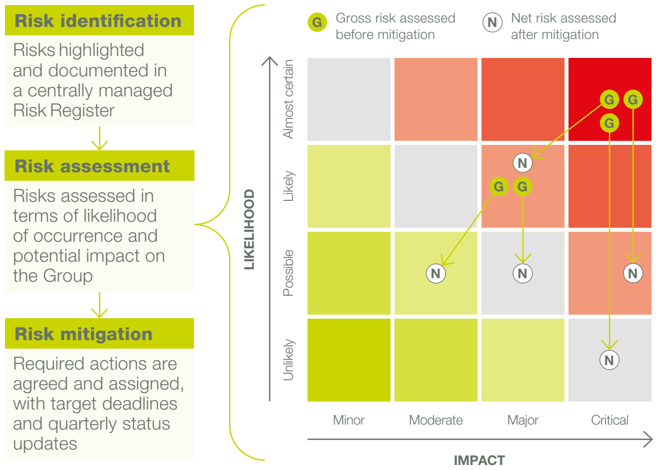
We continue to drive improvements to our risk management process and the quality of risk information generated, whilst at the same time maintaining a simple and practical approach.

During the year we have focused on a number of key areas:

1. Evolving risk descriptions
As time progresses, the nature of some Group risks is evolving. To ensure we continue to address the most important risks facing the Group at this point in time we have updated a number of risk titles and descriptions. New titles are assigned to **GM product** (2012: Our customers) and **Food safety and integrity** (2012: Food safety). New descriptions are in place for **International** and **Our people**.

2. Action plans for key risks
We continue to assess whether sufficient additional mitigating activities are underway to reduce the net risk position of the Group's key risks. By considering net risk on both a one year and three year horizon, we are able to identify when mitigating activities will result in a tangible risk reduction. We also continue to review the ongoing appropriateness of actions to ensure they are as relevant, timely and measurable as possible.

3. Influence of risk tolerance
Risk tolerance and appetite are important considerations in strategic decision-making at Board level. We also recognise the value in applying the concept of risk tolerance in discussions across all levels of the organisation. It is especially beneficial when determining the nature of mitigating activities and their role in addressing risk likelihood or impact.

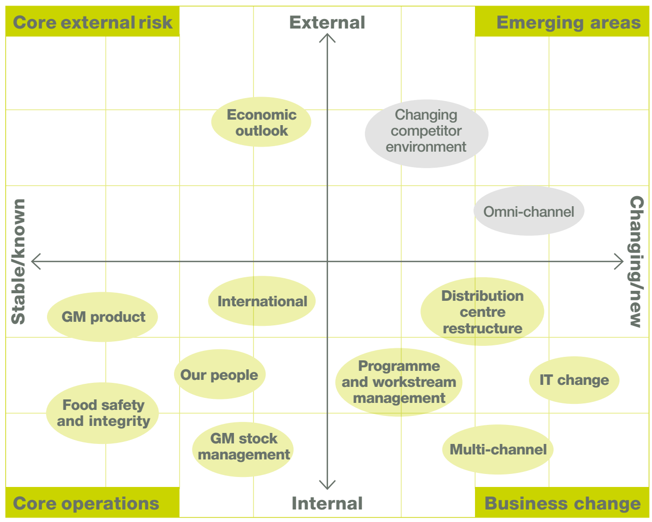


Our principal risks and uncertainties
As with any business, we face risks and uncertainties on a daily basis. It is the effective management of these that places us in a better position to be able to achieve our strategic objectives and to embrace opportunities as they arise.

To achieve a holistic view of the risks facing our business, both now and in the future, we consider those that are:

- external to our business;
- core to our day-to-day operation;
- related to business change activity; 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 discussions on risk, including potential emerging risks as discussed on page 48.



Overleaf are details of our principal risks and the mitigating activities in place 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 of greatest importance 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

Description	Mitigating activities
Finance: We continue to focus on maintaining a strong financial position that supports improvements to our business	
Economic outlook **Economic conditions worsen or do not improve, impacting our ability to deliver the plan** As consumers' disposable incomes come under pressure from price inflation and government austerity measures, trading conditions continue to remain a challenge for our business.	– Proactive management of costs – Regular review of customer feedback and marketplace positioning – Continued focus on value proposition in the context of a balanced product offer, including market leading innovation – Ongoing monitoring of pricing and promotional strategies – Regular commercial review of product performance
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	
GM product **Continued loss of engagement with our core customer** As we seek to enhance the M&S brand, it is important that we address our core customers' specific needs in an increasingly competitive market where economic uncertainty continues to be an influencing factor.	– New senior management team appointed with clear focus on quality and style – Prioritisation of core customer in both General Merchandise and Marketing objectives – Regular review of customer reaction to product and in store experience through focus groups and in-house Customer Insight Unit presentations – Ongoing product and store improvements addressing specific customer feedback – Targeted marketing and promotional activity using customer loyalty data
Food safety and integrity **A food safety or integrity related incident occurs or is not effectively managed** As a leading retailer of fine quality fresh food, it is of paramount importance that we manage the safety and integrity of our products and supply chain, especially in light of the business' greater operational complexity and the heightened risk of fraudulent behaviour in the supply chain.	– Dedicated team responsible for ensuring that all products are safe for consumption through rigorous controls and processes – Continuous focus on quality – Proactive horizon scanning including focus on fraud and adulteration – Established supplier and depot auditing programme
People and change: Our people are fundamental to the long term success and growth of this business	
Our people **Our organisational culture and structure limit our ability to adapt to market changes with pace** As the business strives to become a leading international, multi-channel retailer, it is essential that our organisational set-up allows us to respond to market changes with pace.	– External hires recruited into a number of senior roles bringing an alternative perspective – Robust employee engagement process for effective communication – Alignment of development programmes with business strategy
Programme and workstream management **Benefits from our major business programmes and workstreams are not realised** We continue to undertake a number of major strategic programmes to underpin the achievement of our plan; the delivery of forecasted benefits is critical to this.	– Strategic Programme Office centrally governs the Group's initiatives providing regular status and benefits realisation updates to the Executive Board – Proactive management of programme portfolio and associated benefits in the context of current market conditions and the Group's three year plan – Programme governance structures in place for all major programmes, supported by robust project management discipline – Proactive identification and management of major cross programme interdependencies
Distribution centre restructure **We fail to effectively deliver our new national e-commerce distribution centre** Our new national distribution centre will also service all customer orders placed through Shop Your Way. The implementation of this distribution centre relies on the opening of a new facility and new business processes and systems.	– Robust programme governance in place with clear identification of interdependencies with other Group initiatives – Phased approach to implementation – Ongoing review of trajectory for achievement of agreed operational and financial objectives – Ongoing review of contingency requirement during facility transition – Engagement with external experts (as appropriate) to ensure successful delivery of the in-house operation

Description	Mitigating activities
Selling channels: We have ambitious plans for our UK, International and Multi-channel businesses as part of our commitment to becoming an international, multi-channel retailer	
Multi-channel **A new multi-channel platform with flexibility to support future growth is not delivered by the time our contract with Amazon expires** To achieve our target to become a leading multi-channel retailer and to make our brand more accessible, we are investing in a new online platform that will provide both an enhanced shopping experience and help to accelerate growth.	– Robust programme governance in place with clear identification of interdependencies with other Group initiatives – Phased approach to implementation – Agreed quality assurance plan for programme delivery – Close working with Amazon to ensure the quality of the existing online offer is maintained during new platform delivery
International **Our plan to grow our international business is limited by performance in legacy markets, the start up profitability of new markets or substandard infrastructure** To increase our international presence and build a leadership position in priority markets it is crucial that we maximise our performance in both legacy and new markets, supported by robust systems and supply chain capability.	– Frequent monitoring of performance, including individual country reviews – Particular focus on like for like performance and poor performing stores – Property Board approval of new store openings and monitoring of returns on investment, plus creation of key roles to facilitate delivery of property pipeline – Representation of International in key Group initiatives
Day-to-day operation: We are a customer-centric business and strive to deliver an efficient and effective operation	
GM stock management **Ineffective stock management control impacts either gross margin delivery or product availability** Effective stock management is integral to ensuring that we provide good availability to our customers, whilst minimising the impact of markdowns on profitability.	– Stock, Sales & Intake tool used consistently across GM to plan and manage stock levels – Regular commercial reviews to monitor stock levels and improve overall stock control – Tight control of promotional activity – UK stock ledger now live and the implementation of supporting Business Insight reporting underway – Established inventory control team to ensure stock data integrity
IT change **Unforeseen impact of IT changes to new and existing systems disrupts business operations** As we undertake a number of significant change programmes, the rate and scale of IT change is increasing, with potential to significantly impact our complex and interdependent systems.	– Established Change Approval Board process – Clear decision making process for system changes, including the adoption of change freezes during critical trading periods – Proactive management of cross programme dependencies including 'release management' to group system changes together – Robust Disaster Recovery plans in place for critical business applications

The Group Risk Profile reflects the most important risks facing the business at this point in time; these risks receive specific attention by the Board to ensure that sufficient mitigating activity is in place to reduce net risk to an acceptable level. The Group Risk Profile will evolve as these mitigating activities succeed in reducing the residual risk over time, or new risks emerge. As such, we have removed a number of risks from our Group Risk Profile since the prior year:

- Last year we included Business continuity on the Group Risk Profile in response to the heightened level of risk driven by the UK's summer 2012 events. With the risk now returning to a normal level it has been removed, recognising the strength of our controls in this area
- Financial position, Corporate reputation, New store format, Key supplier failure and IT security have also been removed in recognition of the actions taken to reduce the net risk position

The above risks remain important and they continue to be monitored as part of 'business as usual' activities; however, we consider that they do not represent key risks to our business at this time and they have therefore been removed from the Group Risk Profile.

The risks listed do not comprise all those associated with Marks & Spencer 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.

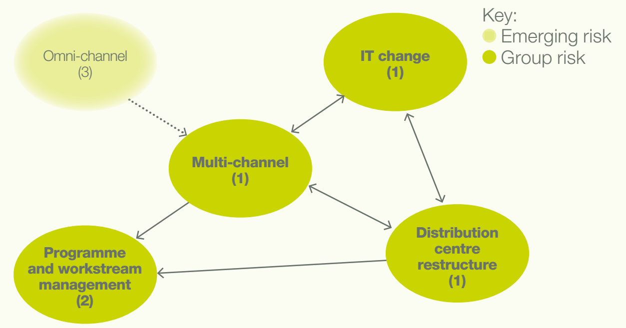
Further information on the financial risks we face and how they are managed is provided on pages 101 to 106.

Accountability continued

Risk interconnectivity

We continue to recognise the significant interdependency between our key risks, which is in part a product of our heavily interconnected business environment (both in terms of systems and processes). The following diagrams are based on our current Group Risk Profile. Both are designed to highlight how changes to one risk could impact on those connected to it, and therefore on the profile as a whole. We have incorporated a number of potential emerging risks which do not feature on our Group Risk Profile at this point in time, but could influence our business in the longer term, illustrating how emerging risk is considered by the Board.

Programme & IT change

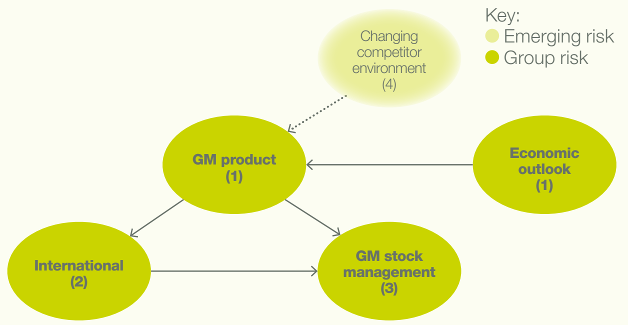


1. Our new online platform **(Multi-channel)** and our **Distribution centre restructure** are highly interdependent programmes reliant on significant **IT change**. Failure to deliver these key programmes or adequately manage associated IT change could increase the likelihood of cumulative failure.

2. Cumulative failure in the successful delivery of our major business programmes would significantly impact our ability to realise agreed benefits.

3. The success of the new platform in supporting our aim to be a leading multi-channel retailer will be influenced by a number of factors, one being our ability to keep pace with ongoing developments in the **Omni-channel** world, currently considered to be a potential 'emerging risk'.

GM product



1. To ensure **GM product** meets our core customers' expectations, the business needs to react with pace to changes in consumer preference in the context of a challenging **Economic outlook**.

2. Our UK catalogue is the core of our international offer; delivering GM product style and quality is critical in achieving our aim to grow our **International** business.

3. UK and international sales performance against plan is a key contributory factor in our ability to achieve effective **GM stock management**.

4. Other potential emerging risks (for example **Changing competitor environment**) may impact the relevance of our GM product and our engagement with our core customer.

Risk and the role of Internal Audit

Internal Audit & Risk comprises both the Group Risk function and Internal Audit. Whilst Group Risk facilitates and manages the risk process that is ultimately owned by the Group Board, Internal Audit are accountable to the Audit Committee. Audit projects are often closely aligned to the Group Risk Profile due to the risk-based approach used to prioritise audit work. The following examples illustrate how Internal Audit work supports Group Risk whilst driving improvements to our control environment and adding value in core business areas.

Risk: International

Internal Audit have carried out a number of International operational reviews including China and the Balkans. Both audits were designed to assess the adequacy and effectiveness of internal controls, but varying risk profiles meant work focused on different functional areas. China was included on the plan due to its strategic importance and significant growth plans whilst the Balkans was selected following a change in the ownership model.
In China there were opportunities to improve operational reporting and automate controls to improve supply chain efficiencies. In the geographically dispersed Balkan stores there were opportunities to improve compliance with certain operating standards.

Risk: Multi-channel

We reviewed the design of the payment process for the new online platform to assess the adequacy of the planned control environment. We also evaluated whether proposed programme testing would maximise operational effectiveness. The selection of Payment Control Design as the area of focus recognises that payment processes carry a high level of inherent risk. The audit identified the need to ensure that operational processes retain flexibility as future business requirements develop, and to ensure that the end to end customer journey meets expectations.

Risk: Distribution centre restructure

Internal Audit scheduled a review to assess the adequacy and effectiveness of controls over supplier compliance with product packaging and labelling requirements; a high risk area of the Distribution Centre Restructure programme. The level of risk is conferred by our large and geographically disparate supply base, with suppliers required to achieve compliance for distribution centre go live. The audit identified opportunities to improve reporting processes and procedures relating to supplier compliance rates to focus attention on the measures that are most critical for go live.

Management actions

Management actions from our audits are tracked to completion and the status of these actions is reported to the Audit Committee to ensure that the risks identified are appropriately addressed. This will, in turn, further mitigate the risks included in our Group Risk Profile.

Engagement

Robert Swannell – Chairman

Engaging with our shareholders was a key action for the Board in 2012/13. We are very keen to understand the views of all our stakeholders and ensure open dialogue throughout the year, not just ahead of the AGM season. We had another full agenda in 2012/13. Marc Bolland, Alan Stewart and our Investor Relations team met with representatives from over 300 investment institutions, answering their questions and keeping them updated on our performance and plans. The level of engagement ranged from one-on-one meetings to group presentations and investor conference calls following our results announcements. In addition we held a number of investor days.

Governance event 2012

The Board is committed to ensuring that we communicate effectively with our shareholders. We are regularly in contact with our institutional shareholders and our annual governance event held at our head office in June 2012 provided an opportunity to meet a significant number of our largest investors, representatives from the influential investor advisory companies and key industry governance specialists.

The 2012 event was attended by Robert Swannell, Chairman, Jan du Plessis, Senior Independent Director, Jeremy Darroch, Chairman of our Audit Committee, Steven Holliday, Chairman of our Remuneration Committee and Mike Barry, our Head of Sustainable Business. The event is structured around presentations on:

- The Board
- Audit and Risk
- Remuneration
- Plan A
- Questions and Answers

The overriding objective of the meeting is to provide investors and their governance specialists with an insight into the key focus and considerations of the Board and its committees and to better understand the governance measures operating across the business.

In August investors were invited to the opening of our most sustainable store at Cheshire Oaks; in October they were given a focused update on our progress to become an international multi-channel retailer and in February 2013 in Istanbul they had the opportunity to better understand our International operations and sourcing strategies. Investors, analysts and press attended the Istanbul event where they received a number of presentations and visited some of the flagship stores in the city. All presentations from these events are available to view at marksandspencer.com/thecompany.

In June 2012 I hosted the second of our now annual Governance Days, details of the event are set out above. Outside of this I also met with a number of investors and industry representatives to answer their questions and better understand their policies, concerns and thinking on governance and voting. I also look to institutions to disclose details of how they voted at AGMs on their websites. Furthermore, we welcome engagement with institutions as the Financial Reporting Council's Stewardship Code continues to be embedded.

Makinson Cowell, the capital markets advisory firm again carried out our annual investor audit of major investors' views on the Company's management and performance. This report provides an independent view and is presented and discussed in depth by the Board each year ahead of the AGM.

Amanda Mellor – Group Secretary

During the year we met and had a number of conversations with investors and representatives on a variety of topics. I also gave presentations and lectures on the way M&S approaches governance and stewardship to industry contacts, other company secretariat teams and to students of the Leeds Business School. The Company has responded to a number of BIS consultations on the changing remuneration and reporting framework, ensuring that we help shape good regulation and legislation.

Private shareholders continue to represent 95% of the shareholdings on our share register. We value their opinions and continue to actively engage with them. We circulate shareholder topics cards with our Notice of Meeting to ensure that the views of those shareholders unable to attend our AGM are heard. Those returned are summarised, presented to the Board and senior management and the Chairman addresses the top three topics at the meeting. Many are responded to directly. Shareholders can also email the Chairman with their comments, write to us or telephone our helpline.

We continue our efforts to drive our private shareholders to become more informed investors. A wealth of information is available on our website and our Investor Relations iPad app (available from the Apple App store) throughout the year. Our trading statements and financial results are also emailed to shareholders that have provided us with email addresses and requested to receive electronic communication.

For those with smartphones, we have again used quick response (QR) codes on our voting forms and Notice of Meeting. These provide the reader with swift access to the director biographies on our website.

We recognise that not all of our shareholders are online, and that the full Annual Report or Annual Review may provide more information than they require. We therefore suggest they receive our smaller M&S At a Glance booklet, published with the private investor in mind. We are keen to communicate that we are listening to what our shareholders and customers are telling us. We have therefore sent all shareholders a supplementary booklet which provides some detail of the significant changes that we have been making across our clothing departments. This booklet also gives a preview of some of our much anticipated Autumn collection and a discount voucher to use in store from 25 July 2013.

We remain committed to our lost shareholder programme and our search agent, ProSearch, continues to seek out those that have failed to keep their details up to date. There have been some great success stories and on many occasions individuals have also become aware of lost shareholdings in other companies, not just M&S. However, despite all our efforts there are some instances where we are unable to find the shareholder; at that stage our share forfeiture programme steps in to utilise these funds and use them for good causes.

Engagement continued

AGM

The AGM provides the Board with the opportunity to meet and engage directly with our shareholders, particularly our private shareholders. The 2012 AGM was held on Tuesday 10 July, the Board and the senior management were available to speak to before the meeting and the Chairman and Committee Chairmen answered shareholder questions during the formal part of the meeting, all resolutions were passed with votes ranging from 86.2% to 99.76%.

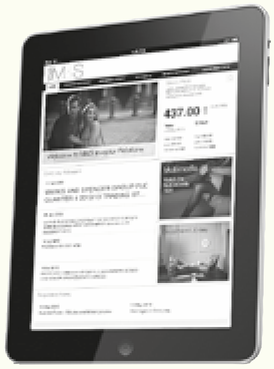
This year's AGM will be held at Wembley Stadium in London on Tuesday 9 July 2013. The Notice of Meeting sets out the schedule for the day and each of the resolutions being proposed at the meeting. A copy of the Notice can be downloaded at marksandspencer.com/thecompany. Once again the meeting will be webcast live and a recording of the meeting available on our website after the event.

Shareholders unable to attend the AGM are encouraged to vote in advance of the meeting, online at sharevote.co.uk or by using the proxy card sent with the Notice of Meeting.

Investor Relations app for the iPad

As new media evolves we try to tailor our communication platforms accordingly. With our Investor Relations app you can view our results and trading statements, regulatory news announcements, interviews with directors, share price information and our TV marketing campaigns all in one place.

To download the app, go to the Investor section of **marksandspencer.com/thecompany** and follow the link. Those with a QR reader app can use the link below.



Audit Committee

Chairman's overview

"We remain focused on the audit assurance and risk process to support our longer term objectives."

Jeremy Darroch
Audit Committee Chairman

Last year the Committee's activities involved a strategic reappraisal of the internal audit assurance plan, continued challenge of the Group risk process and tolerance, an internal audit effectiveness review, continued understanding of key business areas and their associated risks, and improving ongoing Committee learning. Our progress is outlined in further detail on the following page.

The Committee has closely monitored the strategic progress of the business against the plan set out in 2010. In line with last year, the Committee continued its usual programme of receiving presentations from across the business to better understand key elements of the strategic plan, the associated risks and how these are being mitigated. These are lively, challenging discussions where the Committee members contribute from their own experiences. A brief overview of these discussions is provided on the following page.

As Robert Swannell referenced in his overview, my time as a non-executive director of M&S is coming to an end and after six years of service I will step down from the Board on 19 June 2013 and Andy Halford will take over as Chairman of the Audit Committee. Andy brings a wealth of knowledge from his business career and recent and relevant financial experience from his role as Chief Financial Officer at Vodafone. I leave the Committee in good hands.

External Auditor

The Committee recommended the reappointment of PricewaterhouseCoopers LLP (PwC) for 2013/14. We believe their independence, the objectivity of the external audit and the effectiveness of the audit process is safeguarded and remains strong. This is displayed through their robust internal processes, their continuing challenge, their focused reporting and their discussions with both management and the Audit Committee.

We judge PwC through the quality of their audit findings, management's response and stakeholder feedback. No decisions are taken by PwC over the design of internal controls and they do not perform the role of management as part of any of the work they undertake.

Their audit and non-audit fees are set, monitored and reviewed throughout the year (see note 4 on page 87). 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. This policy has been further strengthened in the 2012/13 financial year.

The Committee recognises that this year the non audit fees are higher than in previous years. This is predominantly due to two significant projects – one HR-related and the other to advise in the development of our integrated controls framework to document the processes and controls across M&S' core business activities. In both instances other providers were considered. However, it was felt that PwC were best positioned to provide the services required given their deep understanding of the business, its culture, and strategy, thus providing better cost effectiveness without compromising their independence. This aside, the Committee is very mindful that these were exceptional items and aim to maintain non audit fees at a lower level going forward.

Tenure of Auditor

PwC and its predecessor firms have been the Auditor for M&S since the Company first listed on the London Stock Exchange in 1926 (a breakdown of how our Auditors have evolved is provided in the governance section of our corporate website).

To maintain the objectivity of the audit process M&S actively supports audit partner rotation – Stuart Watson was appointed as lead Audit partner in 2008/09 and has now come to the end of his tenure with M&S. Stuart will be succeeded by Paul Cragg.

The Committee recognises that length of tenure of auditors has been a topic of much debate. It notes that the UK Governance Code is being updated, adding a requirement that the external Audit contract be put out to tender at least every ten years. In view of this, the Committee intends to conduct a tender of the Audit contract during the course of the coming year.

Effectiveness of the Audit Committee

The Board is satisfied that Jeremy Darroch, Andy Halford and Jan du Plessis have recent and relevant financial experience.

Who is on our Committee?

Name of Director	From	A	B	Percentage of meetings attended
Jeremy Darroch (Committee Chairman)	1 Sept 2006 (retiring 19 June 2013)	5	5	100%
Andy Halford[2]	1 Jan 2013	2	2	100%
Steven Holliday[1]	15 July 2004	5	4	80%
Martha Lane Fox	1 June 2007	5	5	100%
Jan du Plessis	1 Nov 2008	5	5	100%

A = Maximum number of meetings the director could have attended
B = Number of meetings the director actually attended
1) Steven Holliday was unable to attend the Committee meeting on 5 November 2012 due to prior business commitments with National Grid.
2) Andy Halford will become Committee Chairman following Jeremy's departure.

What has the Committee done during the year?

The Committee's performance is reviewed each year as part of its Board Effectiveness review. Areas for improvement are highlighted, discussed by the Committee, and included as part of an action plan for the coming year. During the year the Committee:

- discussed the upcoming changes to the Governance Code
- undertook a strategic reappraisal of our internal audit and assurance plan to ensure greater alignment with the Company's strategic plan
- undertook an independent review of our internal audit effectiveness, in line with the Chartered Institute of Internal Audit. The review was performed by RSM Tenon. It comprised a series of one-to-one interviews with Committee members and interview and group workshops with internal stakeholders to discuss processes and procedures. A selection of audits were also reviewed and discussed. The output from this review has already begun to shape our planning for 2013/14;
- discussed internal financial controls, changes in accounting policies and impact on our financial statements
- discussed other areas of compliance, including GSCOP, Bribery Act, M&S Code of Ethics and Behaviours and Whistleblowing;
- discussed the learning requirements of the Committee as part of the independent review;
- continued to receive updates from executives managing key areas of the business, including Plan A, Business Continuity, Customer Services, EDC/NDC, HR Shared Services, Food Pricing and Promotions and Multi-channel. These now account for around a quarter of the time allocated to the meetings;
- debated our risk profile, classification and management of key risks, identification of new emerging risks and movement in risk tolerance as we better manage existing risks; and
- discussed the outcomes of our annual effectiveness review.

What is the action plan for 2013/14?

Looking ahead the Committee believes it is important to remain focused on the audit, assurance and risk process within the business, along with oversight of financial and other regulatory requirements. The actions for 2013/14 are focused around:

- conduct a tender of our Audit contract;
- review of three-year assurance plan, design and scope;
- risk profile and new emerging risks;
- specific risk presentations on key business areas; and
- implementing the key findings from the RSM Tenon review of the internal audit function, including a revised Audit Charter.

Committee Updates

Detailed updates from the business units were introduced three years ago. These updates are fully embedded as fixed agenda items for each meeting, with one or more areas represented. This year these topics covered:

EDC / NDC

- updated on the new structure to provide a faster, more agile and lower cost service;
- updated on the strategy to consolidate our network, provide greater capacity, improve availability to stores and service levels to M&S Direct; and
- reviewed the key risks and mitigating actions around implementation, testing and launch of the EDC/NDC.

Business continuity

- reviewed levels of preparedness for crisis management and business recovery both nationally and internationally;
- reviewed changes to the out of hours call out process;
- received updates on significant national and international incidents – ranging from fires, flooding and adverse weather to medical evacuation, power grid failure and country-specific national security incidents; and
- discussed enhancement of the 'Travel Safe' programme and the third party integration into the Employee Travel Tracker.

Audit Committee continued

Plan A – Annual

- reviewed progress made over the last year and the business' ongoing objectives. The number of objectives has been increased from 100 to 180, 139 of these have now been achieved;
- discussed commitments unlikely to be achieved and the external factors impacting these;
- discussed the business' improvements in fuel efficiency and the milestones delivered to become Carbon Neutral;
- received an update on the UK sustainable learning stores, including Cheshire Oaks;
- reviewed the effectiveness of engaging consumers in Plan A;
- updated on our collaboration with the World Economic Forum (WEF) consumer industries group, and provided an overview on how we are actively involved in re-framing the consumer agenda around sustainable consumption;
- discussed progress of the External Sustainable Retail Advisory Board and its new appointments (Prof. Yunis and Joanna Lumley); and
- updated on the significant improvement in our clothing recycling programme (Shwopping) and the engagement of Joanna Lumley as our global ambassador for Plan A.

Multi-channel

- updated on the Multi-channel Foundation Programme, the complexities of integrating legacy systems and the overriding focus on the customer and the user experience through design and build process;
- explored how the IT Strategy was educating the business in the practicalities of multi-channel trading;
- updated on the key risks to the project, security and the testing process and received an overview of how these are being managed;
- updated on how the project compares to competitor and market activity; and
- debated operating concerns with the current platform.

HR shared services

- updated on the new people system integration, including online payslips, salary exchange, centralised HR, ways of working and staff roster management;
- reviewed target completion dates and opportunities regarding our international operations;
- reviewed the internal audit report regarding implementation and embedding of the new systems within both head office and store environments; and
- discussed the positive metrics and risk planning for the new people system project, especially given the significant number of individual transactions involved.

Customer services

- received an overview of the customer experience, the operating model, service style and customer contact management
- updated on improvements in service levels, with particular focus on furniture delivery where the supplier, the packaging and the communication had all been changed resulting in a substantial reduction in refunds in this area;
- reviewed risks and mitigating actions including training, clear reporting and measurement and escalation procedures; and
- discussed future plans with particular focus on support for the Multi-channel Foundation Programme.

Food pricing and promotions

- updated on the changes to the Food group covering business guidelines, processes and methods of monitoring;
- updated on the progress of the Simply M&S range introduced in May 2012;
- updated on the promotional strategy, brand impact and customer perceptions;
- reviewed the findings of the internal audit report; and
- discussed overall food safety and product quality and the development of healthy food ranges, while ensuring value is maintained for the customer.

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 and up to the date of this Annual Report, in accordance with the requirements of the revised Turnbull Guidance on Internal Control, published by the FRC. It confirms that no significant failings or weaknesses were identified in the review for 2012/13. Where areas for improvement were identified, processes are in place to ensure that the necessary action is taken and that progress is monitored.

Furthermore, the Committee considers the Company has adopted appropriate accounting policies and where necessary, made appropriate estimates and judgements. The Committee also believes that this Annual report and accounts provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

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

Nomination Committee

Chairman's overview

"We have secured important appointments and overseen a number of changes to the composition of the Board."

Robert Swannell
Chairman

Chairman's Overview

The Committee has focused on strengthening, broadening, balancing and understanding the range of skills, experience and diversity on the Board, its Committees and below Board level.

This year we have secured important appointments and overseen a number of changes to the composition of the Board. Andy Halford joined the Board in January as a non-executive director to succeed Jeremy Darroch as Chairman of the Audit Committee when he steps down from the Board on 19 June 2013. John Dixon, formerly Executive Director, Food was appointed to take charge of General Merchandise, following Kate Bostock's departure from the Company in September 2012. Steve Rowe was appointed to the Board to succeed John as Executive Director, Food. Prior to his appointment to the Board, Steve had held a number of senior management roles, most recently as Head of Retail. Steve's appointment demonstrates progress against the Committee's focus on succession and development of internal talent below Board level. In addition Steven Holliday has agreed to remain on the Board for a further year to ensure continuity. On 21 May we announced that Steven Sharp, Executive Director, Marketing will be retiring from business. He will step down from the Board at the 2013 AGM and will continue to work in the business as Creative Director until 28 February 2014. Patrick Bousquet-Chavanne will take over responsibility for marketing and will be put forward for election to the Board as Executive Director, Marketing and Business Development at the 2013 AGM.

In conjunction with these appointments, we have also reviewed our Committee composition during the year, recommending the appointment of Andy Halford as a member of both the Nomination and Audit Committees

The lack of women on boards remains a significant focus for companies and regulators around the world. We are committed to increasing the participation of women across all levels of our business, not least the Board, however, we continue to view diversity in its broadest sense, and seek to ensure that this remains a significant feature of our Board. We have made progress against many of the objectives which we set out in our Board diversity policy which we published for the first time in last year's Annual Report. We have reported against each of these objectives on page 54.

Who is on our Committee?

The Committee is made up of a majority of independent non-executive directors, details of its membership are set out below. Its terms of reference are available to view on our website at marksandspencer.com/thecompany.

Name of Director	From	A	B	Percentage of meetings attended
Robert Swannell (Committee Chairman)	4 October 2010	4	4	100%
Marc Bolland	1 May 2010	4	4	100%
Vindi Banga	3 September 2011	4	4	100%
Miranda Curtis[1]	3 February 2012	4	3	75%
Jeremy Darroch (resigns 19 June 2013)	1 February 2006	4	2	50%
Martha Lane Fox	1 June 2007	4	4	100%
Andy Halford (appointed 1 January 2013)	1 January 2013	1	1	100%
Steven Holliday	15 July 2004	4	4	100%
Jan du Plessis	1 November 2008	4	4	100%

A = Maximum number of meetings the director could have attended
B = Number of meetings the director actually attended
1) Miranda Curtis was unable to attend the Committee meeting on 2 May 2012 due to prior business commitments with Liberty Global.
2) Jeremy Darroch was unable to attend two Committee meetings due to prior business commitments.

What has the Committee done during the year?

This year, in line with our 2012/13 action plan, the Committee spent a significant amount of time discussing succession and development of the executive director team whilst also supporting the development of talent across the business. We have also reviewed the skill set and level of ongoing training for all directors. During the year the Committee:

- recommended the appointments of Steve Rowe and Andy Halford to the Board and John Dixon's appointment as Executive Director, General Merchandise;
- discussed the appointment renewal for Martha Lane Fox and Steven Holliday.
- undertook a review of the Board and Committee composition in advance of and following the appointment of the new executive and non-executive directors and considered the retirement and tenure of existing directors;
- reviewed our progress against our stated diversity policy objectives, and highlighted where further action is required;
- reviewed ongoing training and knowledge of all directors;
- reviewed results of the Committee's evaluation as part of our annual Board review process.

What is the action plan 2013/14?

- continue to refresh and evolve the non-executive directors on the Board and ensure appropriate skills and diverse experience;
- continue to support succession of the executive directors and gain greater exposure to high potential talent across the organisation;
- review the size of the Board to ensure continued efficient and effective debate;
- continue to review ongoing inductions, training and knowledge of all directors.

Nomination Committee continued

Board diversity policy

Last year we published our first Board diversity policy, which set out our targets and objectives to ensure that diversity, in its broadest sense, remains a central feature of the Board. This year, in line with best practice, we are reporting against each of the objectives in the policy:

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

The number of women on the Board has fallen since last year from 31% to 21%, below the 30% target we set ourselves. This reduction resulted from the departure of Kate Bostock and the subsequent appointments to the Board of Steve Rowe as Executive Director, Food and Andy Halford as a non-executive director. However, the figure will increase to 23% following the departure of Jeremy Darroch on 19 June 2013. A number of women were shortlisted and interviewed for the non-executive director position and we remain committed to increasing the representation of women on the Board. However, all appointments will continue to be based on merit, measured against objective criteria and the skills and experience the individual offers.

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

A number of internal initiatives are underway to actively develop, nurture and strengthen a pipeline of talent through the business, including:

- a comprehensive talent review presented to the Board annually;
- the introduction of our internal Leadership Development Service, which partners key talent across the business and assists them in focusing and broadening their skill sets and experience for future opportunities. Initiatives include assisting individuals to gain valuable board experience through non-executive roles outside M&S, primarily with NHS Trusts;
- access to International Business School training;
- executive coaching schemes;
- senior management sponsored schemes;
- non-executive director mentor schemes.

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

The Nomination Committee works closely with our executive search agency, JCA, in drawing up long and short lists of candidates who offer a full range of experience and skills.

In searching for our most recent non-executive director, we identified and interviewed a wide and diverse selection of candidates, many of whom were women. All candidates were measured against our agreed criteria, which in this case included the necessary skills and experience to succeed Jeremy Darroch as Chairman of the Audit Committee.

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

The Board is committed to ensure high performing women achieve greater exposure to the nomination committees of FTSE 100 companies, which is why we have committed to ensuring that all of our non-executive director long lists in the short to medium term include 50% female candidates. During the year, one independent non-executive director was appointed to the Board. As part of that process and in conjunction with our executive search firm we ensured that at least 50% of the candidates on the long list were women.

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

The Board supports the aims of the seven principles of the Executive Search Firms Voluntary Code of Conduct on gender diversity. We only engage executive search firms who are signatories to this code. We continued to work closely with JCA during the year, who are committed to supporting us in increasing the representation of women on the Board. The Board confirms that JCA has no other connection with the Company.

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

The Board remains committed to reporting against the objectives in the Policy. A number of business wide initiatives have aimed at promoting gender and other forms of diversity:

- promoted diversity in all of its forms through the Company's Diversity Forum, which meets quarterly. It reviews diversity across the business, establishes internal measures and targets and sets future challenges (currently looking at the pipeline of women through the business);
- hosted a series of Women's Breakfasts. Laura Wade-Gery hosted a roundtable discussion on women in business as part of International Women's Day;
- launched MBA Leadership Programme to recruit and develop talented MBA graduates from international business schools;
- pioneered flexible working policies. M&S champions a culture where some of the most senior employees work flexibly. For example Belinda Earl, recently appointed as Style Director – works a 2/3 day week;
- work with our suppliers across the globe to ensure women are treated fairly and equally;
- proactively encourage an inclusive culture through the Marks & Start initiatives, including the most recent Marks & Start Logistics programme, which works specifically to get disabled people into the workforce at our distribution centres.

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

We continue to regard the Board and Committee evaluation process as an important means of monitoring our progress as a Board. Further details on how we have progressed during the year and details of the 2013/14 Action Plan can be found on page 44. We continue to work closely on the succession of executive directors, identifying the high-calibre talent across the business. We have also continued the process of progressively refreshing the make-up of the non-executive directors, both vital elements in enhancing the Board's diversity.

The Board diversity policy helps to keep diversity at the front of the Board's mind when considering its composition, whilst also driving initiatives across the business. As we continue to pursue our international strategy it is ever more important to ensure the Board has international experience and outlook and that the management is reflective of the customers and communities which we serve. Much is talked about gender diversity and we remain committed to achieving our target of 30% female representation on the Board in the short to medium term. The development of a strong and diverse pipeline of senior management including measures to assist those talented women throughout the business to rise to the highest levels continues to be an area on which the Board is focused.

Remuneration report

Remuneration Committee

"We have a straightforward and transparent approach to executive remuneration."

Steven Holliday
Chairman of the Remuneration Committee

On behalf of the Board, I am pleased to introduce our 2013 Remuneration Report, for which we will be seeking your approval at our AGM in July 2013. The report is designed to provide you with information demonstrating the link between the Company's strategy, performance and the remuneration outcomes for our executive directors.

The subject of executive remuneration continues to be an area of focus for shareholders and the wider public and the Remuneration Committee is aware of the sensitivities regarding executive pay at a time of continued economic challenge and uncertainty. The Committee continues to meet regularly with investors, representative bodies and Government organisations and listens carefully to their feedback. Linking pay to company performance and shareholder consultation is fundamental to the remit of the Committee and we believe that we provide a strong and independent direction on remuneration policy.

We are supportive of the Government's drive to increase the transparency of executive remuneration reporting and to provide shareholders with greater influence over future policy. The Committee has considered these proposals and responded to the Department for Business, Innovation & Skills (BIS) consultation on revised directors' remuneration report disclosures. Whilst the new regulations are yet to be finalised, this 2013 Remuneration Report already meets a significant number of the existing proposals, in particular with regard to simplification, transparency, separation of past pay and future policy and in providing remuneration scenarios and a 'single figure' of remuneration on page 64.

The Company's long-term remuneration strategy remains to attract and retain leaders and ensure they are focused on delivering business priorities within a framework aligned with shareholder interests. We believe that our remuneration policy provides appropriate incentives to reward performance that protects the long-term interests of our stakeholders and helps to develop an internationally successful business. The Committee also has a particularly strong focus on the remuneration for employees below Board level when determining remuneration for executive directors.

The Company has a straightforward and transparent approach to executive remuneration which is comprised of base salary, benefits, cash and shares awarded under an annual incentive scheme and shares awarded under a long-term incentive scheme. Three elements of our executive remuneration framework are performance-related and two are subject to a three year deferral or performance period in order to encourage executive directors to remain with the Company and align their interests with those of shareholders. Executive directors are also required to hold a minimum number of shares in the Company within five years of their appointment.

The focus on performance has been further emphasised by the introduction in 2013 of malus provisions within all the Company's senior share schemes. Under the terms of the provisions, the Committee has discretion to reduce, cancel or impose further conditions on unvested awards in circumstances it considers appropriate, including for example, a material misstatement of the Company's audited results.

The Committee has reviewed the base salary levels for executive directors in 2013 and agreed annual increases of 2% which were in line with the salary budget applying to the broader employee population. Marc Bolland has, at his own request, not received a salary increase since his appointment in 2010. He again proposed not to receive any increase in 2013, which the Committee agreed.

With regard to bonus payments, the Committee carefully considered performance during the year and the progress made against our longer-term objectives and believes that the bonus payments for executive directors are appropriate when also reviewed within the context of a challenging year for the business and wider retail sector. In addition, awards made in 2010 under the Performance Share Plan, the Company's long-term incentive scheme, were assessed at the end of the three year performance period. The threshold target was not achieved and so all awards held by executive directors will lapse.

The Committee has also reviewed the calibration of target ranges for the Performance Share Plan to ensure they reflect the Company's focus over the next three years. As a result, for awards granted in 2013, the EPS basis of measurement is annualised growth in EPS. The target requires double digit annual growth for maximum payout, which the Committee believes would represent exceptional performance for shareholders in the current environment.

The Committee considers that the existing senior remuneration framework introduced in 2011 remains appropriate for the current business priorities and external environment. Despite another difficult trading year, the Committee believes significant progress has been made towards the delivery of the Company's key strategic priorities and this is reflected in the level of remuneration for executive directors in 2012/13.

Steven Holliday
Chairman of the Remuneration Committee

Key elements of this report

1) Senior remuneration framework: **page 58**

2) Summary of objectives and bonus 2012/13: **page 62**

3) Executive directors' 'single figure' of remuneration for the year ended 30 March 2013: **page 64**

Part 1: Unaudited information

Remuneration Committee

What is the remit of the Remuneration Committee?

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

The full terms of reference for the Committee can be found on the Company's website at marksandspencer.com. The key responsibilities are summarised below:

- 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;
- considering the appropriateness of the senior remuneration policy when reviewed against the policy and arrangements throughout the rest of the organisation;
- determining the terms of employment and remuneration for executive directors and senior managers including recruitment and termination arrangements;
- approving the design, targets and payments for all annual incentive schemes that include executive directors and senior managers;
- agreeing the design, targets and annual awards made for all share incentive plans requiring shareholder approval; and
- assessing the appropriateness and subsequent achievement of performance targets relating to any share incentive plan.

In carrying out these responsibilities, the Committee seeks independent external advice as necessary and continued to retain the services of Deloitte LLP during the year. The Committee appointed Deloitte as independent advisors in 2010 following a competitive tender process. Deloitte provide independent commentary on matters under consideration by the Committee and updates on legislative requirements, best practice and market practice. The Committee is comfortable that the Deloitte engagement partner and team provide objective and independent remuneration advice to the Committee and do not have any connections with Marks and Spencer Group plc that may impair their independence. In addition to providing advice on executive remuneration, Deloitte has provided tax, consultancy and internal audit advice to the Group in the financial year.

Deloitte is a founding member of the Remuneration Consultants Group and voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The code of conduct can be found at www.remunerationconsultantsgroup.com.

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

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

How does the Committee engage with shareholders?

The Remuneration Committee is committed to an open and transparent dialogue with shareholders on the issue of executive remuneration. During the last comprehensive review of the framework in 2010/11, the Committee actively engaged widely with key shareholders and shareholder representative bodies, and the views expressed in consultation were taken into account in shaping the current framework. When reviewing the senior remuneration framework each year, the Committee continues to take into account the views and guidance expressed by shareholders and shareholder bodies. The Remuneration Committee Chairman is available to answer questions at the AGM and the answers to specific questions are posted on the Company website.

What was the level of support for the 2011/12 Directors' Remuneration Report?

At the Annual General Meeting on 10 July 2012, 96.26% of shareholders voted in favour of approving the Directors' Remuneration Report for 2011/12, which the Committee believes illustrates the strong level of shareholder support for the senior remuneration framework:

Effectiveness of the Remuneration Committee

Who's on our Committee?

The following independent non-executive directors were members of the Committee during 2012/13:

Member	From	A	B	Percentage of meetings attended
Steven Holliday (Committee Chairman)	15 July 2004	7	7	100%
Vindi Banga[1]	1 Sept 2011	7	6	86%
Miranda Curtis[2]	1 Feb 2012	7	5	71%
Jan du Plessis	8 Sept 2009	7	7	100%

A = Maximum number of meetings the director could have attended.
B = Number of meetings the director actually attended.
1 Vindi Banga was unable to attend the Committee meeting on 20 April 2012 due to prior business commitments with Clayton Dubilier & Rice.
2 Miranda Curtis was unable to attend the Committee meetings on 2 May 2012 due to personal reasons and on 13 March 2013 due to prior business commitments with Liberty Global Inc.

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 Directors' Remuneration Report for 2011/12 and review of the AGM voting outcome for the report;
- annual review of all executive directors' and senior managers' base salaries and benefits in line with Company policy and approval of any salary increases;
- review of achievement of Annual Bonus Scheme profit against target;
- review of achievement of executive directors' individual objectives for 2012/13;
- review of the design and targets for the 2013/14 Annual Bonus Scheme including the approval of individual objectives for executive directors;
- review and approval of all awards made under the Performance Share Plan taking into account the total value of all awards made under this plan;
- half year and year end review of all share plan performance against targets;
- approval of the vesting level for the 2010 Performance Share Plan awards;
- consideration of the performance measures and targets to be applied to the 2013 Performance Share Plan awards;
- clear articulation of the Committee's reasoning and consideration for vesting and payment levels to executive directors;
- review of director shareholding guidelines and achievement of these for each executive director;
- significant consideration of institutional investors' current guidelines on executive compensation;
- assessment of the external environment surrounding the Company's current remuneration arrangements;
- consideration of external market developments and best practice in remuneration;
- review of Committee performance in 2012/13; and
- review of Committee terms of reference.

Other items:

- responded to the Department of Business, Innovation & Skills (BIS) consultation on revised directors' remuneration report disclosures;
- consideration of the impact of the Scottish Limited Partnership (SLP) change in accounting treatment on the 2012/13 Annual Bonus Scheme targets and Performance Share Plan targets;
- review of and agreement to amendments to share plan rules to support the Company's international strategy;
- review of and agreement to remuneration packages for new executive directors and new senior managers; and
- consideration and introduction of a 'malus' clause within the Company's share plan rules.

What is the action plan for 2013/14?

As a result of a full review of the Committee's performance and effectiveness, the following actions have been agreed for 2013/14:

- stakeholder engagement and the remuneration debate;
- company-wide remuneration offering and balance to the rest of the organisation;
- clarity of remuneration disclosures;
- ongoing remuneration training of Committee members; and
- Committee succession and handover.

Remuneration report continued

Senior remuneration framework

What are the key elements of remuneration for executive directors?
The table below summarises the key remuneration elements for executive directors:

Fixed remuneration	2013/14 policy
Base pay	Reviewed against: – salary levels in appropriate comparator companies e.g. major retailers; FTSE 25 – 75 – Company performance, market conditions and economic climate – role, responsibility and performance of the individual director – level of pay awards in the rest of the business
Benefits – including pension salary supplement; life assurance; car/car allowance; employee discount	– provided on a market-competitive basis – aligned to the remuneration framework for all employees

Variable remuneration	2013/14 policy
Annual Bonus Scheme	– Group PBT with an individual element linked to delivery of key strategic objectives – stretching targets to achieve maximum payment – drives profitability and strategic change across the organisation – aligned to the bonus structure for all employees – aligned to shareholder interests through annual financial performance and delivery of business strategy
Deferred Share Bonus Plan	– compulsory part-deferral of annual bonus into shares – shares vest after three years subject to continued employment – links individual reward with long-term Company performance – aligned to shareholder interests through long-term financial performance and delivery of business strategy – malus provision including material misstatement introduced for 2013/14
Performance Share Plan	– primary long-term incentive plan – targets based on annualised Earnings Per Share (EPS) growth, Return on Capital Employed (ROCE) and revenue growth across the UK, International and Multi-channel businesses – links individual reward with long-term Company performance – aligned to shareholder interests through long-term financial performance and delivery of business strategy – malus provision including material misstatement introduced for 2013/14

How is the senior remuneration framework aligned to Company strategy?
A comprehensive review of the senior remuneration framework was carried out in 2010/11 to ensure that it was aligned to the Company strategy. The Committee actively engaged with shareholders and continues to consult regularly on the broader remuneration debate.

The Committee reviewed this framework in 2013 and considered the existing incentive arrangements in the context of both the business strategy and current external guidelines for executive remuneration. Following this review, the Committee concluded that the current framework continues to ensure that the Company is able to attract and retain leaders who are focused and motivated to deliver the business priorities and remains aligned to shareholder interests.

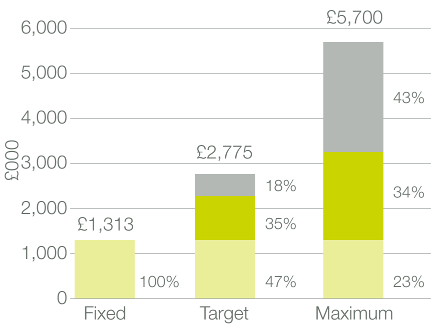
The Committee reviews the total remuneration of each executive director against that of executives from comparator companies to ensure that total remuneration levels are competitive. The balance between fixed and variable remuneration elements is carefully considered.

Incentive plans take account of risk and drive behaviours in line with the Company's high ethical standards. All executive directors and senior managers have individual objectives aligned to the business strategy, operating plan and Plan A – the Company's environmental and ethical plan.

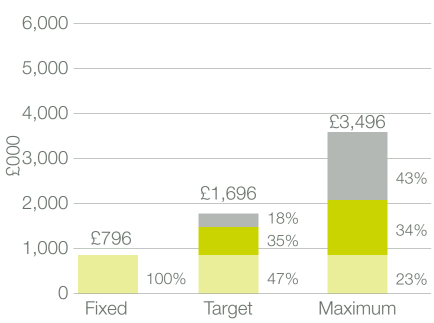
The Committee also considers a range of internal factors, including the remuneration policy and arrangements throughout the rest of the organisation. The remuneration framework for executive directors is aligned to that of senior managers, with the same short-term and long-term incentive arrangements including performance measures, other than the size of awards and maximum potentials.

What are the indicative values of the remuneration packages for each executive director?
The charts below provide an indication of what could be received by each of the executive directors under the remuneration policy for 2013/14. A substantial proportion of the remuneration packages are performance-related and therefore this is illustrated for three different performance scenarios (Fixed, Target, Maximum) described in more detail below. These charts are illustrative as the actual value which will ultimately be received will depend on business performance in the year 2013/14 (for the Annual Bonus Scheme) and in the three year period to 2015/16 (for the Performance Share Plan (PSP)), as well as share price performance to the date of the vesting of the Deferred Share Bonus Plan and PSP awards in 2016.

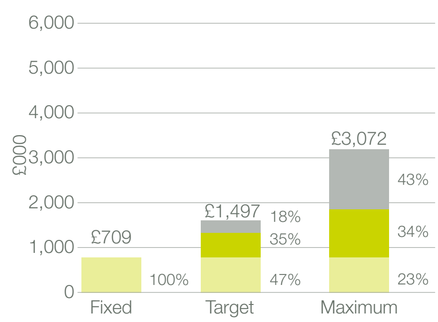
Marc Bolland



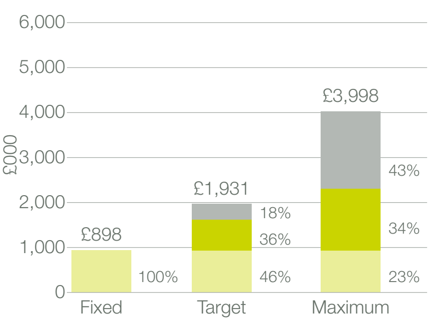
John Dixon



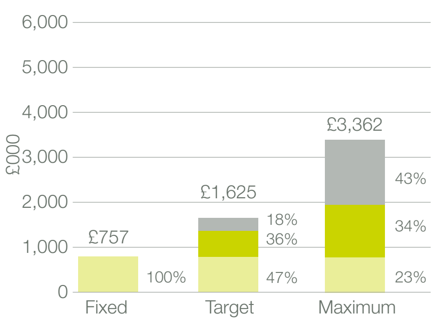
Steve Rowe



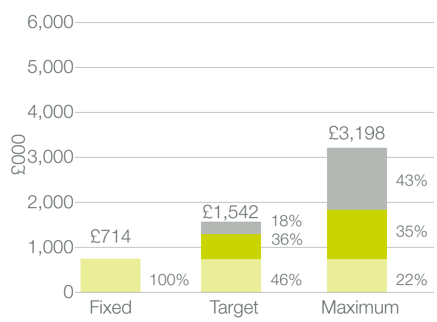
Steven Sharp



Alan Stewart



Laura Wade-Gery



	Includes all elements of fixed remuneration: – base salary (for 2013, as shown in the table on page 68); – pension benefits (using the salary supplement policy on page 60 and, for applicable individuals, also inclusive of a value reflecting deferred participation in the Company's defined benefit arrangements); and – benefits (using the value for 2012/13 included in the single figure table on page 64).
	Annual Bonus Scheme. Represents the potential value of the annual bonus for 2013/14. Half of any bonus would be deferred into shares for three years and this is included in the value shown. No share price growth is assumed.
	Performance Share Plan. Represents the potential value of the PSP to be awarded in 2013, which would vest in 2016 subject to the EPS, Revenue and ROCE targets (disclosed on page 61). No share price growth is assumed.
Fixed	Fixed remuneration only. No vesting under the Annual Bonus Scheme and Performance Share Plan.
Target	Includes the following assumptions for the vesting of the incentive components of the package: – Annual Bonus Scheme: 50% of maximum – Performance Share Plan: 20% of maximum
Maximum	Includes the following assumptions for the vesting of the incentive components of the package: – Annual Bonus Scheme: 100% of maximum – Performance Share Plan: 100% of maximum

Remuneration report continued

What are the details of fixed remuneration?

Executive directors

Salary

In reviewing executive director salary levels for 2013, the Committee took into account Company performance in 2012/13, external market data and the salary review principles applied to the rest of the organisation to ensure a consistent approach.

Marc Bolland has, at his own request, not received a salary increase since his appointment in 2010. He again proposed not to receive any increase in 2013, which the Committee agreed. John Dixon and Steve Rowe received salary increases on appointment to their new roles in October 2012, John's to reflect the additional scope and responsibility and Steve's to reflect his promotion to executive director. Neither received a further increase in January 2013. Steven Sharp, Alan Stewart and Laura Wade-Gery received increases of 2% in January 2013 in line with the Company's broader salary review policy. The current annual salaries for executive directors are shown in the Contract terms table on page 65. The next planned salary review for all executive directors is in January 2014.

Benefits

With the exception of the CEO, executive directors receive a 25% salary supplement in lieu of membership of the Group Pension Scheme. The CEO receives a salary supplement of 30%. Executive directors also receive life assurance provided through a separate policy. In addition, each executive director receives a car or car cash allowance and is offered the benefit of a driver. Executive directors also receive employee product discount in line with all other employees. The value of the benefits and allowances for each director is shown within the Directors' emoluments table on page 68.

Chairman

The fee for the Chairman is determined by the Remuneration Committee and reflects the commitment, demands and responsibility of the role. The fee is paid monthly in cash inclusive of all committee roles and is not performance-related or pensionable. No increase has been awarded since the Chairman's appointment in 2010 and following the 2013 fee review it was decided not to increase the fee at this time. The Chairman is entitled to the use of a car and driver provided by the Company. The Chairman also receives employee product discount in line with other employees.

Non-executive directors

The fees for non-executive directors are determined by the Chairman and executive directors. Fees are set at an appropriate level to attract and retain individuals with the necessary experience, knowledge and skills to ensure the Board is able to carry out its duties effectively. The fees recognise the scope of the role and time commitment required. Fees are paid monthly in cash and are not performance-related or pensionable. Non-executive directors receive employee product discount in line with other employees. No other benefits are provided.

Non-executive director fees were revised in 2010 and no further increases were awarded in 2011 or 2012. Following the 2013 fee review it was decided not to increase the current fees.

The current fee structure is as follows:

Basic annual fee	£70,000[1]
Committee Chairman	£15,000[2]
Senior Independent Director	£100,000[1]

1 Inclusive of all committee memberships.
2 Audit and Remuneration Committee only and in addition to the basic annual fee.

The annual fees for non-executive directors are shown in the Contract terms table on page 65. The fees paid during the year to each non-executive director are shown in the Directors' emoluments table on page 68.

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

Annual Bonus Scheme: short-term incentive
Deferred Share Bonus Plan: long-term incentive
Structure for 2013/14

The Annual Bonus Scheme is reviewed annually and is structured to drive profitability and individual performance across the organisation. The bonus potential for executive directors is up to 200% of salary for 'maximum' performance. There is compulsory deferral into shares for all senior managers. Shares vest after three years subject to continued employment. For executive directors, the deferral into Company shares equates to 50% of their bonus amount.

In line with best practice, malus provisions have been introduced to all the Company's senior share schemes; the Deferred Share Bonus Plan, Performance Share Plan and Executive Share Option Scheme. The provisions will take effect for all awards granted from 2013 onwards. Under the terms of the provisions, the Committee will have the discretion to reduce, cancel or impose further conditions on awards in circumstances it considers appropriate. Such circumstances include, but are not limited to, a material misstatement of the Company's audited results. Further details of the Deferred Share Bonus Plan can be found in note 13 to the financial statements on page 96 of the Annual Report.

The Annual Bonus Scheme performance measures are unchanged for 2013/14. The primary performance measure is Underlying Group Profit Before Tax (Group PBT). 60% of the annual bonus is determined by performance against demanding profit targets set by the Committee at the start of the year. 40% of the annual bonus is determined by performance against individual objectives independent of Group PBT.

The Committee believes this approach provides an appropriate focus on annual profit targets whilst also ensuring that directors focus on driving business changes that support the Company's medium-term strategy.

Group PBT targets

Group PBT targets have again been set taking into consideration the Company's own internal operating plan, external forecasts for the retail sector and analysts' profit forecasts. This means that there will need to be significant outperformance of the operating plan in order to achieve the highest payment levels.

Individual objectives

2013/14 individual objectives will continue to be aligned to the Company's strategic plan and the specific programmes that support it.

Challenging and quantifiable individual objectives are set which are subject to rigorous review by the Committee, both at the start of the year when set and the end of the year when assessments of performance are undertaken and at any time during the year should there be a change in director accountabilities.

Each executive director will be assessed on targets set in relation to four clearly defined business objectives. Two objectives will be 'collective' so that all directors are focused on these common goals encouraging collaboration across the senior management group. Within these, each director will have specific actions or targets. The two 'collective' objectives will continue to be:

- delivery against UK operating plan cost targets; and
- progress against Plan A goals.

The remaining two individual objectives will relate to specific programmes relevant to each executive director's business area or to key operating challenges. These include objectives that are focused on continuing to drive Multi-channel and International growth, availability, innovation and brand recognition.

The Committee has agreed quantifiable performance metrics for each objective. 'Threshold' and 'stretch' targets must be achieved to demonstrate value-added performance.

No individual objective element of the bonus can be earned unless a 'threshold' level of Group PBT has been achieved, subject to the Committee's overall assessment of the performance of the business during the period. This maintains the important principle that below a defined level of performance, no bonus will be earned. The Group PBT 'threshold' for this purpose is set below the entry point for Group PBT performance, which is aligned to the bonus policy for the rest of the organisation.

Performance Share Plan structure for 2013/14

The Performance Share Plan (PSP) continues to be the primary long-term incentive for executive directors and senior managers in the Company. The maximum award opportunity is 300% of salary, however, the Committee's intention is that awards will normally be referenced to 250% of salary. A malus provision will take effect for all awards granted from 2013 as previously described on page 60 within the Annual Bonus Scheme structure for 2013/14.

The Committee reviewed the PSP performance measures and their alignment to business strategy in 2013 and concluded that the balance of EPS, Revenue and ROCE continues to appropriately reflect the key drivers of shareholder value. For 2012 awards, the EPS measure was based on cumulative underlying basic EPS over the three year performance period. For 2013 awards, the EPS measure is annualised growth in underlying basic EPS which the Committee believes is a more appropriate method of assessing company performance over the next three years.

Performance Share Plan Awards 2013/14

For awards made in 2013/14, the performance metrics and targets are as follows:

Performance metric	Commercial rationale	Basis of measurement
Earnings Per Share (EPS)	Rewards focus on bottom-line performance	Based on annualised underlying basic EPS growth over three-year performance period
Return on Capital Employed (ROCE)	Rewards efficient use of capital	Based on average ROCE % over three year performance period against pre-determined targets
Revenue	Rewards top line growth in line with business strategy	Based on strategic growth targets: – 10% on UK – 10% on International – 10% on Multi-channel

	% Vesting[1]	Annualised EPS growth (%)	ROCE (%)	Revenue (FY16 – £) UK[2]	Multi-channel[3]	International[4]
Weighting (% of total award)		50%	20%	10%	10%	10%
'Threshold' performance	20%	5%	15.0%	£8,900m	£900m	£1,400m
'Maximum' performance	100%	12%	18.5%	£9,600m	£1,100m	£1,800m

1 % Vesting is a straight line between 'threshold' and 'maximum' performance.
2 Excluding Multi-channel.
3 Net of VAT / gross of returns.
4 Excluding Multi-channel / including Republic of Ireland.

Remuneration report continued

Executive Share Option Scheme: long-term incentive

The Executive Share Option Scheme was adopted at the 2005 AGM but there is currently no intention to use the scheme on a regular basis. No grants were awarded under the Scheme for 2012/13. The Committee will continue to review the use of the scheme and retain the flexibility to grant awards if appropriate. A malus provision will take effect for any awards granted from 2013.

All-Employee Share Schemes: long-term incentive

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

What were the outcomes in 2012/13 for the short-term and long-term incentive schemes?

Annual Bonus Scheme outcome for 2012/13

In 2012/13, 60% of the executive directors' bonus was based on Group PBT performance with the remaining 40% based on the achievement of individual objectives, independent of Group PBT (and subject to achieving the 'threshold' Group PBT target).

Summary of bonus objectives

	Marc Bolland	John Dixon	Steve Rowe	Steven Sharp	Alan Stewart	Laura Wade-Gery
Financial measure	Group PBT	Group PBT	Group PBT	Group PBT	Group PBT	Group PBT
Collective objectives	Total UK operating costs	Total UK operating costs GM & Food operating costs	Total UK operating costs Food operating costs	Total UK operating costs Marketing operating costs	Total UK operating costs Finance, IT and Logistics operating costs	Total UK operating costs Multi-channel operating costs
	Individual Plan A objectives	Individual Plan A objectives	Individual Plan A objectives	Individual Plan A objectives	Individual Plan A objectives	Individual Plan A objectives
Examples of achievement against business area objectives	Increased online and International GM and Food sales	Increased food innovation and focused on value	Continued food innovation and focused on value	Improved in-store presentation	Enhanced reporting for information and planning	Increased UK online sales and customer satisfaction
	Restructured Executive Board and strengthened senior leadership team	Restructured GM senior leadership team	Increased International Food sales	Developed marketing strategy to increase online awareness Launched M&S Bank	Improved supply chain and delivered new distribution centre	Launched new International websites Delivered new multi-channel platform key milestones

Group PBT objective (60% of total)

Group PBT targets were set by the Committee at the start of the year with reference to the Company's own internal operating plan, external forecasts for the retail sector and analysts' profit forecasts. Targets were designed to be stretching in order to increase motivation and focus and drive desired behaviours.

Following the conclusion of dialogue with the Financial Reporting Review Panel (FRRP), the Company changed the terms of the Scottish Limited Partnership (SLP) as detailed on page 95 of the Annual Report. As a result of the revised operating plan, the 2012/13 Annual Bonus Scheme targets were recalibrated and the Committee agreed revised PBT targets.

The underlying Group PBT performance was £665.2m which was above the minimum target set by the Remuneration Committee. As a result, the percentage of salary for the Group PBT objective was 33% for all executive directors.

Individual objectives (40% of total)

Each executive director had four individual objectives for 2012/13, each accounting for 10% of the total bonus.

'Collective' individual objectives (20% of total)

Two objectives were 'collective' i.e. individual targets set for each director under shared objectives so that all directors focused on common goals encouraging collaboration across the senior management team. The Committee reviewed the performance of each executive director against the quantifiable performance targets that were set at the start of the year.

– Delivery against UK operating plan cost targets:

  As set out on page 34 of the Annual Report, we managed the businesses prudently in a challenging market.

  Based on the Committee's assessment of performance against the individual targets under this objective, payouts to executive directors were in the range 7.5% – 9% of maximum bonus opportunity for this element of the bonus, equating to 15% to 18% of salary.

– Delivery against Plan A commitments:

  As detailed on page 32 of the Annual Report, we continued our progress against our 2015 Plan A targets.

  Based on the Committee's assessment of performance against the individual targets under this objective, payouts to executive directors were in the range 4% – 9% of maximum bonus opportunity for this element of the bonus, equating to 8% – 18% of salary.

Business area individual objectives (20% of total)

The remaining two objectives related to specific programmes relevant to each executive director's business area for which they have primary responsibility.

Performance against these objectives was reviewed by the Committee against quantifiable individual performance metrics that were established for each director.

Based on the Committee's assessment of performance against these individual targets, payouts to executive directors were in the range 8.5% – 13% of maximum bonus opportunity for this element of the bonus, equating to 17% – 26% of salary.

Summary of bonus earned for 2012/13

The Committee believes that the level of bonus payout appropriately reflects the significant progress made in 2012/13 towards the achievement of the Company's long-term strategic goals. The Committee, having carefully considered performance during the year, further believes that the bonus payments made are appropriate in the context of a challenging year for the business and the wider retail sector.

The table below summarises the bonus payments for each executive director for 2012/13:

Summary of bonus earned in 2012/13[1]

	Group PBT Target	'Collective' objectives	Business area objectives	Total bonus earned		
		% of salary		% of salary	£000	% of maximum bonus potential
Maximum bonus potential	120%	40%	40%	200%	–	–
Actual bonus earned						
Marc Bolland	33%	26%	26%	85%	829	42.5%
John Dixon	33%	34%	24%	91%	546	45.5%
Steve Rowe[2]	33%	34%	17%	84%	221	42.0%
Steven Sharp	33%	25%	19%	77%	531	38.5%
Alan Stewart	33%	28%	24%	85%	492	42.5%
Laura Wade-Gery	33%	26%	26%	85%	469	42.5%

1 Kate Bostock was not entitled to receive any bonus for 2012/13.
2 The bonus amount for Steve Rowe reflects his period of service as an executive director.

Performance Share Plan outcome for 2012/13

2010 Award Final Measurement

The underlying basic EPS figure for 2012/13 was 32.7p which was below the 'threshold' targets of RPI + 3% for awards of up to 200% of salary and RPI + 4% for awards of between 200% and 400% of salary. As a result, there was no vesting of awards made in 2010 and these will lapse in full.

The targets for 2010 awards are shown in the table below:

2010 Awards

Award		Average annual EPS growth in excess of inflation (RPI): 20% vesting	100% vesting	EPS for start of scheme[1]
2010	(for awards up to 200% of salary)	3%	9%	30.0p
	(for awards between 200% and 400% of salary)	4%	12%	30.0p

1 The EPS for the start of the 2010 scheme is based on the 52 week result, ensuring a like-for-like measure.

Overview Strategic review Financial review Governance Financial statements and other information

Remuneration report continued

The targets for outstanding 2011 and 2012 awards are shown in the table below:

2011 and 2012 Awards

	% Vesting[1]	Cumulative EPS (p)	ROCE (%)	Revenue (£)[5] UK[2]	Revenue (£)[5] Multi-channel[3]	Revenue (£)[5] International[4]
Weighting (% of total award)		50%	20%	10%	10%	10%
2011 Award						
'Threshold' performance	20%	110p	17.0%	£9,200m	£700m	£1,100m
'Maximum' performance	100%	130p	18.5%	£9,900m	£1,000m	£1,400m
2012 Award						
'Threshold' performance	20%	110p	15.0%	£8,900m	£800m	£1,300m
'Maximum' performance	100%	130p	18.5%	£9,600m	£1,000m	£1,700m

1) % Vesting is a straight line between 'threshold' and 'maximum' performance.
2) Excluding Multi-channel.
3) Net of VAT/gross of returns.
4) Excluding Multi-channel/including Republic of Ireland.
5) FY 2014 for 2011 award and FY 2015 for 2012 award.
The above targets to do not take into consideration changes in accounting treatments adopted by the Group after the award date. The impact of these changes will be taken into consideration when performance is assessed at the end of the three year performance period.

'Single figure' of remuneration 2012/13

The Committee notes that BIS intends to introduce the requirement for disclosure of a 'single figure' of remuneration received in the year. There are some technical challenges in arriving at a single value, particularly concerning the timing and value of awards which may not be aligned with the financial year end. However, it is hoped that the introduction of this figure in this year's Report will help shareholders' understanding and demonstrate the Committee's commitment to transparent reporting.

The directors' 'single figure' of remuneration for 2012/13

	Salary/fees £000	Benefits £000	Pension benefits £000	Total fixed pay £000	Bonus[1] £000	PSP vested[2] £000	Total variable pay £000	Total 2013 £000
Chairman								
Robert Swannell	450	20	–	470	–	–	–	470
Chief Executive Officer								
Marc Bolland	975	45	293	1,313	829	0	829	2,142
Executive directors								
John Dixon	581	43	148	772	546	0	546	1,318
Steve Rowe[3]	263	29	69	361	221	0	221	582
Steven Sharp	679	36	170	885	531	0	531	1,416
Alan Stewart	570	33	143	746	492	0	492	1,238
Laura Wade-Gery	544	24	136	704	469	0	469	1,173
Non-executive directors								
Vindi Banga	70	–	–	70	–	–	–	70
Miranda Curtis	70	–	–	70	–	–	–	70
Jeremy Darroch	85	–	–	85	–	–	–	85
Martha Lane Fox	70	–	–	70	–	–	–	70
Andy Halford[3]	18	–	–	18	–	–	–	18
Steven Holliday	85	–	–	85	–	–	–	85
Jan du Plessis	100	–	–	100	–	–	–	100
Directors retiring from the Board during the year								
Kate Bostock[3]	306	33	76	415	0	0	0	415

1 The annual bonus was based on performance against PBT and individual targets for 2012/13 (see detail on pages 62 and 63). Half of this amount will be deferred into Company shares for a period of three years.

2 The PSP was awarded in 2010 and was based on EPS performance targets in the three year period to 30 March 2013, in accordance with the table on page 63. As the 'threshold' target was not met, this award will lapse in full.

3 The total amounts for Steve Rowe and Kate Bostock reflect the fact that they were executive directors for six months of 2012/13. The total amounts for Andy Halford reflect three months for 2012/13.

Board appointments and contracts

The contract terms and current annual salaries/fees for all members of the Board are set out in the table below:

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 chair/ SID fee £000	**Current annual salary/fee £000**	Total 2012 £000	Change £000
Chairman							
Robert Swannell	23/08/2010	6 mths / 6 mths	450	–	**450**	450	–
Chief Executive Officer							
Marc Bolland	01/05/2010	12 mths / 6 mths	975	–	**975**	975	–
Executive directors							
John Dixon	09/09/2009	12 mths / 6 mths	600		**600**	562	38
Steve Rowe	01/10/2012	12 mths / 6 mths	525	–	**525**	–	–
Steven Sharp	08/11/2005	12 mths / 6 mths	689	–	**689**	675	14
Alan Stewart	28/10/2010	12 mths / 6 mths	579	–	**579**	567	12
Laura Wade-Gery	04/07/2011	12 mths / 6 mths	552	–	**552**	541	11
Non-executive directors							
Vindi Banga	01/09/2011	3 mths / 3 mths	70	–	**70**	70	–
Miranda Curtis	01/02/2012	3 mths / 3 mths	70	–	**70**	70	–
Jeremy Darroch	01/02/2006	3 mths / 3 mths	70	15	**85**	85	–
Martha Lane Fox	01/06/2007	3 mths / 3 mths	70	–	**70**	70	–
Andy Halford	01/01/2013	3 mths / 3 mths	70	–	**70**	–	–
Steven Holliday	15/07/2004	3 mths / 3 mths	70	15	**85**	85	–
Jan du Plessis	01/11/2008	3 mths / 3 mths	100	–	**100**	100	–

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 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. In line with best practice, 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

The Chairman has an agreement for service which requires six months' notice by either party.

Non-executive directors

Non-executive directors have an agreement for service for an initial three-year term which can be terminated by either party giving three months' notice.

What were the changes to the Board during the year?

Directors appointed to the Board

John Dixon

John Dixon was appointed Executive Director, General Merchandise on 1 October 2012 on a salary of £600,000. John was originally appointed to the Board as Executive Director, Food on 9 September 2009. His remuneration package is consistent with the structure for all executive directors and the full terms are disclosed in this report.

Steve Rowe

Steve Rowe was appointed Executive Director, Food on 1 October 2012 on a salary of £525,000. His remuneration package is consistent with the structure for all executive directors and the full terms are disclosed in this report.

Andy Halford

Andy Halford was appointed to the Board of Marks and Spencer Group plc as a non-executive director on 1 January 2013. He is a member of the Audit and Nomination Committees. He receives a basic fee of £70,000 in line with the structure set out on page 60.

Remuneration report continued

Directors retiring from the Board

Kate Bostock

Kate Bostock, Executive Director, General Merchandise retired from the Board and ceased to be an employee of the Company on 1 October 2012. She received salary and benefits up to her leaving date and received no further payments on leaving other than an amount in respect of accrued but untaken holiday entitlement. The Remuneration Committee exercised its discretion and no payments were made under either the 2011/12 or the 2012/13 Annual Bonus Scheme.

The status of her outstanding long-term incentive awards is shown in the table on page 70. In accordance with the terms of the Performance Share Plan, Kate was entitled to all vested options granted in 2009 under the Performance Share Plan (which vested in June 2012), but all other outstanding awards made under this Plan lapsed on leaving. With regard to outstanding awards made under the Deferred Share Bonus Plan, the Remuneration Committee exercised its discretion and on leaving she received the full entitlement of options granted in 2010 and the award made in 2011 was pro-rated for time held from date of grant to her leaving date. No award was made in 2012 under the Deferred Share Bonus Plan.

What will be the changes to the Board in 2013/14?

Directors joining the Board

Patrick Bousquet-Chavanne

Patrick Bousquet-Chavanne will join the Board as Executive Director, Marketing & Business Development on 10 July 2013. He will receive an annual salary of £525,000 and is entitled to receive benefits and participate in the executive incentive schemes in line with the framework for other executive directors.

Directors retiring from the Board

Steven Sharp

Steven Sharp, Executive Director, Marketing will retire from the Board following the Annual General Meeting on 9 July 2013 and will continue to work in the business as Creative Director until 28 February 2014 when he will leave the Company. As a result, Steven will be paid in line with his contractual arrangements. He will not receive any lump sum payment in lieu of notice, but will be entitled to receive a payment under the Annual Bonus Scheme, pro-rated for the months worked in 2013/14. Steven will not receive any award to be made in 2013 under the Company's Performance Share Plan. In line with the Plan rules, he will be entitled to all outstanding share awards made under the Company's long-term incentive schemes. For unvested awards made under the Performance Share Plan, the number of shares he will receive will be determined by achievement against the measures and targets at the end of the respective performance period.

Jeremy Darroch

Jeremy Darroch has served as a non-executive director and Chairman of the Audit Committee since February 2006. He has decided to step down and retires from the Board on 19 June 2013.

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 the Company. The individual director retains any fee. External board appointments for the 2013/14 financial year are shown below:

Name	Company	Fee £000
Marc Bolland	Manpower Inc	124[1]
Steven Sharp	Adnams plc	28

1 Marc Bolland's fee is paid in cash and stock units and in US dollars. For the purposes of this table the values were converted to sterling using the £:$ spot rate as at 30 March 2013 for stock units and the average rolling £:$ rate during the year for cash payments.

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 table below. Options granted under the Company share schemes are detailed in part 2 of this report. Further information regarding employee share option schemes is given in note 13 to the financial statements on page 95 of the Annual Report.

There have been no changes in the directors' interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and 22 May 2013. No director had an interest in any of the Company's subsidiaries at the beginning or end of the year.

	Ordinary shares as at 1 April 2012 or at date of appointment	**Ordinary shares as at 30 March 2013**
Robert Swannell	100,000	**100,000**
Marc Bolland	147,430	**147,430**
John Dixon	156,295	**156,407**
Steve Rowe	177,423	**185,926**
Steven Sharp	397,044	**399,560**
Alan Stewart	10,000	**10,000**
Laura Wade-Gery	55,055	**55,055**
Miranda Curtis	5,500	**5,500**
Vindi Banga	2,000	**2,000**
Jeremy Darroch	2,000	**2,000**
Martha Lane Fox	20,100	**20,100**
Andy Halford	–	**3,000**
Steven Holliday	2,500	**2,500**
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 their date of appointment. The relevant salary is at the date of appointment and the market value is measured at the current date. Holdings in the shares of the Company including the net value of all unexercised awards under the Deferred Share Bonus Plan and Restricted Share Plan as at 30 March 2013 are shown below:

	Time from date of appointment	% of salary Target	Actual
Marc Bolland	2 / 11 months	200	**177**
John Dixon	3 / 7 months	100	**280**
Steve Rowe	– / 6 months	100	**198**
Steven Sharp	7 / 5 months	100	**589**
Alan Stewart	2 / 5 months	100	**72**
Laura Wade-Gery	1 / 9 months	100	**183**

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. The Company monitors the number of shares issued under these schemes and their impact on dilution limits. The Company's usage of shares compared to the dilution limits set by the 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) as at 30 March 2013 was as follows:

All share plans

Executive share plans

Total shareholder return

Performance graph

The graph below illustrates the Company's performance against the FTSE 100 over the past five years:

Part 2: audited information

Directors' emoluments

	Salary/fee[1] £000	Cash allowance[2] £000	Benefits[3] £000	Dividend equivalents £000	Bonus[4] £000	**Total 2013 £000**	Total 2012 £000
Chairman							
Robert Swannell	450	–	20	–	–	**470**	451
Chief Executive Officer							
Marc Bolland	975	297	40	193	414	**1,919**	1,682
Executive directors							
John Dixon	581	162	26	65	273	**1,107**	891
Steve Rowe[5]	263	74	21	11	110	**479**	–
Steven Sharp	679	170	36	75	265	**1,225**	1,065
Alan Stewart	570	143	33	15	246	**1,007**	905
Laura Wade-Gery	544	153	7	23	235	**962**	1,377
Non-executive directors							
Vindi Banga	70	–	–	–	–	**70**	41
Miranda Curtis	70	–	–	–	–	**70**	12
Jeremy Darroch	85	–	–	–	–	**85**	85
Martha Lane Fox	70	–	–	–	–	**70**	70
Andy Halford	18	–	–	–	–	**18**	–
Steven Holliday	85	–	–	–	–	**85**	85
Jan du Plessis	100	–	–	–	–	**100**	73
Directors retiring from the Board during the year							
Kate Bostock[5]	306	97	12	67	–	**482**	780
Total	**4,866**	**1,096**	**195**	**449**	**1,543**	**8,149**	**7,517**

1 Executive director salary increases, where applicable, were effective from 1 January 2013 as set out on page 60 and in the Contracts table on page 65. John Dixon and Steve Rowe received salary increases on appointment to their new roles on 1 October 2012 as described on page 60.

2 The elements included in the Cash allowance column of the table include pension supplement and car allowance, as applicable to each director and are described on page 60.

3 The elements included in the Benefits column of the table include car, driver and life assurance, as applicable to each director and are described on page 60.

4 For executive directors, 50% of the total bonus earned is paid in cash as shown in the table above. The remaining 50% is deferred into shares which will be granted in June 2013. The total bonus earned by each executive director is shown in the 'single figure' of remuneration table on page 64.

5 The amounts for Steve Rowe and Kate Bostock reflect their periods of service as executive directors. For Steve Rowe, his total bonus earned in 2012/13 was £441,000 of which £220,500 was earned as an executive director. For Kate Bostock, the 2012 total reflects a £164,000 reduction to the total shown in last year's report as no payment was made under the 2011/12 Annual Bonus Scheme.

Directors' pension information

a) Pension benefits

John Dixon and Steve Rowe are deferred members of the Company's Defined Benefit Pension Scheme. Details of the pension accrued by them during the year ended 30 March 2013 are shown below:

	Age as at 30 March 2013	Accrued pension entitlement as at 31 March 2012 £000	**Accrued pension entitlement as at 30 March 2013 £000**	Increase in accrued pension during the period[1] £000	Increase in accrued pension during the period net of inflation[1] £000	Transfer value of accrued pension as 31 March 2012 £000	**Transfer value of accrued pension as at 30 March 2013 £000**	Increase in transfer value during the period[1] £000	Increase in transfer value during the period net of inflation[1] £000
John Dixon	45	130	**133**	3	–	1,830	**2,099**	269	–
Steve Rowe	45	138	**141**	3	–	1,965	**2,251**	286	–

1 The period is from 31 March 2012 to 30 March 2013.

The accrued pension entitlement is the deferred pension amount that the director would receive at age 60 if he left the Company on 30 March 2013. The Listing Rules require this to be disclosed excluding inflation.

All transfer values have been calculated on the basis of actuarial advice in accordance with the current Transfer Value Regulations. The transfer values of the accrued entitlement represent the value of the assets that the pension scheme would transfer to another pension provider on transferring the scheme's liability in respect of the director's pension benefits. They do not represent sums payable to the director and therefore cannot be added meaningfully to annual remuneration. The increase in transfer value is the increase in the transfer value of the accrued benefits during the year.

b) Payments to former directors

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

Unfunded pensions	**2013 £000**	2012 £000
Clinton Silver	**117**	114

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

Directors' interests in long-term incentive schemes

	Date of grant	Maximum options receivable at 1 April 2012 or date of appointment	Options granted during the year	Options exercised during the year	Options lapsed during the year	Maximum options receivable at 30 March 2013 or on date of leaving	Option price (p)	Share price on date of award (p)	Share price on date of exercise (p)	Option period
Executive Chairman										
Marc Bolland										
Performance Share Plan[1]	09/06/10	1,143,024	–	–	777,714	**365,310**	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
	25/07/11	687,200	–	–	–	**687,200**	0.0	354.7	–	25/07/14 – 24/07/21
	18/06/12	–	749,769	–	–	**749,769**	0.0	325.1	–	18/06/15 – 17/06/22
Deferred Share Bonus Plan	09/06/11	162,263	–	–	–	**162,263**	0.0	378.4	–	09/06/14 – 08/06/21
	18/06/12	–	101,968	–	–	**101,968**	0.0	325.1	–	18/06/15 – 17/06/22
Restricted Share Plan[2]	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	397.6	–	01/01/14 – 30/06/14
Total		**3,431,415**	**851,737**	**–**	**777,714**	**3,505,438**				
Executive directors										
John Dixon										
Performance Share Plan[1]	09/06/09	314,575	–	109,943	204,632	**–**	0.0	286.1	327.2	–
	24/11/09	26,178	–	–	17,029	**9,149**	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
	25/07/11	380,603	–	–	–	**380,603**	0.0	354.7	–	25/07/14 – 24/07/21
	18/06/12	–	432,174	–	–	**432,174**	0.0	325.1	–	18/06/15 – 17/06/22
Deferred Share Bonus Plan	09/06/10	223,054	–	–	–	**223,054**	0.0	341.2	–	09/06/13 – 08/06/20
	09/06/11	98,039	–	–	–	**98,039**	0.0	378.4	–	09/06/14 – 08/06/21
	18/06/12	–	62,233	–	–	**62,233**	0.0	325.1	–	18/06/15 – 17/06/22
Executive Share Option Scheme	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	252.6	–	01/01/14 – 30/06/14
Total		**1,377,045**	**494,407**	**109,943**	**221,661**	**1,539,848**				
Steve Rowe										
Performance Share Plan[1]	09/06/10	153,868	–	–	–	**153,868**	0.0	341.2	–	09/06/13 – 08/06/20
	25/07/11	205,243	–	–	–	**205,243**	0.0	354.7	–	25/07/14 – 24/07/21
	18/06/12	232,912	–	–	–	**232,912**	0.0	325.1	–	18/06/15 – 17/06/22
Deferred Share Bonus Plan	09/06/10	76,934	–	–	–	**76,934**	0.0	341.2	–	09/06/13 – 08/06/20
	09/06/11	41,844	–	–	–	**41,844**	0.0	378.4	–	09/06/14 – 08/06/21
	18/06/12	32,753	–	–	–	**32,753**	0.0	325.1	–	18/06/15 – 17/06/22
Restricted Share Plan[3]	18/01/10	20,000	–	20,000	–	**–**	0.0	364.4	390.4	–
Executive Share Option Scheme	20/07/04	31,699	–	–	–	**31,699**	347.0	347.0	–	20/07/07 – 19/07/14
SAYE	21/11/08	8,251	–	–	–	**8,251**	203.0	252.6	–	01/01/14 – 30/06/14
Total		**803,504**	**–**	**20,000**	**–**	**783,504**				
Steven Sharp										
Performance Share Plan[1]	09/06/09	394,966	–	–	256,926	**138,040**	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
	25/07/11	461,657	–	–	–	**461,657**	0.0	354.7	–	25/07/14 – 24/07/21
	18/06/12	–	519,071	–	–	**519,071**	0.0	325.1	–	18/06/15 – 17/06/22
Deferred Share Bonus Plan	09/06/10	267,291	–	–	–	**267,291**	0.0	341.2	–	09/06/13 – 08/06/20
	09/06/11	113,724	–	–	–	**113,724**	0.0	378.4	–	09/06/14 – 08/06/21
	18/06/12	–	62,288	–	–	**62,288**	0.0	325.1	–	18/06/15 – 17/06/22
Executive Share Option Scheme	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	24/11/11	3,488	–	–	–	**3,488**	258.0	322.4	–	01/01/15 – 30/06/15
Total		**2,022,875**	**581,359**	**–**	**256,926**	**2,347,308**				

Remuneration report continued

Directors' interests in long-term incentive schemes (continued)

	Date of grant	Maximum options receivable at 1 April 2012 or date of appointment	Options granted during the year	Options exercised during the year	Options lapsed during the year	**Maximum options receivable at 30 March 2013 or on date of leaving**	Option price (p)	Share price on date of award (p)	Share price on date of exercise (p)	Option period
Alan Stewart										
Performance Share Plan[1]	24/11/10	144,432	–	–	–	**144,432**	0.0	380.8	–	24/11/13 – 23/11/20
	25/07/11	387,651	–	–	–	**387,651**	0.0	354.7	–	25/07/14 – 24/07/21
	18/06/12	–	436,019	–	–	**436,019**	0.0	325.1	–	18/06/15 – 17/06/22
Deferred Share Bonus Plan	09/06/11	39,789	–	–	–	**39,789**	0.0	378.4	–	09/06/14 – 08/06/21
	18/06/12	–	53,194	–	–	**53,194**	0.0	325.1	–	18/06/15 – 17/06/22
Restricted Share Plan[2]	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 – 23/11/20
SAYE	24/11/11	3,488	–	–	–	**3,488**	258.0	322.4	–	01/01/15 – 30/06/15
Total		**654,141**	**489,213**	**–**	**–**	**1,143,354**				
Laura Wade-Gery										
Performance Share Plan[1]	25/07/11	444,037	–	–	–	**444,037**	0.0	354.7	–	25/07/14 – 24/07/21
	18/06/12	–	416,025	–	–	**416,025**	0.0	325.1	–	18/06/15 – 17/06/22
Deferred Share Bonus Plan	18/06/12	–	37,442	–	–	**37,442**	0.0	325.1	–	18/06/15 – 17/06/22
Restricted Share Plan[2]	25/07/11	119,751	–	–	–	**119,751**	0.0	354.7	–	25/07/12 – 24/07/21
	25/07/11	126,225	–	–	–	**126,225**	0.0	354.7	–	25/07/13 – 24/07/21
	25/07/11	77,677	–	–	–	**77,677**	0.0	354.7	–	25/07/14 – 24/07/21
Total		**767,690**	**453,467**	**–**	**–**	**1,221,157**				
Directors retiring from the Board during the year										
Kate Bostock										
Performance Share Plan[1]	09/06/09	349,528	–	122,160	227,368	**–**	0.0	286.1	356.0	–
	09/06/10	337,045	–	–	337,045	**–**	0.0	341.2	–	–
	25/07/11	415,844	–	–	415,844	**–**	0.0	354.7	–	–
	18/06/12	–	467,548	–	467,548	**–**	0.0	325.1	–	–
Deferred Share Bonus Plan	09/06/10	242,672	–	–	–	**242,672**	0.0	341.2	–	01/10/12 – 30/09/13
	09/06/11	102,439	–	–	59,757	**42,682**	0.0	378.4	–	01/10/12 – 30/09/13
	18/06/12	–	50,495	–	50,495	**–**	0.0	325.1	–	–
Executive Share Option Scheme	24/11/04	249,627	–	249,627	–	**–**	336.5	336.5	371.6	–
Total		**1,697,155**	**518,043**	**371,787**	**1,558,057**	**285,354**				

1 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 performance conditions are fully met as outlined on page 61. The 2009 award vested as follows: for awards up to 200% of salary, vesting at 34.95%; for awards between 200% and 400% of salary, vesting at 28.97%. The 2010 award will lapse as the threshold EPS target will not be met as set out on page 63.

2 These awards were made in connection with the directors' appointment to compensate them for incentive awards that were forfeited on cessation from their previous employer.

3 Steve Rowe was awarded these Restricted Share Plan options before he was appointed executive director.

The market price of the shares at the end of the financial year was 390.0p; the highest and lowest share prices during the financial year were 398.8p and 312.2p respectively.

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 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 9 July 2013.

Approved by the Board
Steven Holliday, Chairman of the Remuneration Committee
London
20 May 2013

Pensions governance

The Group operates a defined benefit pension scheme (the ‘Scheme’) for employees with an appointment date prior to 1 April 2002.

The results of the triennial actuarial valuation of the Scheme as at 31 March 2012 revealed a deficit of £290m. This represents a substantial reduction in deficit from £1.3bn as at 31 March 2009.

The assets of the pension scheme, which are held under trust separately from those of the Group, are managed by the Board of the Pension Trust (‘Trustee Board’). The Trustee Board has three main committees: Management and Governance, Investment and Actuarial Valuation.

During the year the size of the Trustee Board reduced from 12 to nine members. The Trustee Board is chaired by Graham Oakley, who commenced a five-year term in April 2011, having been a member of the Board since 2000. The Trustee Board includes two independent directors plus three member representatives who are appointed through a selection process which embeds efficient succession rotation planning. During the year the Board has been recognised through various external awards including those for investment strategy and risk management.

The Trustee Board has a business plan against which progress is measured on an ongoing basis in a similar approach to the Group Board. The Trustee Board also maintains a risk register and an associated action plan, a conflicts of interest policy, plus a register and a code of ethics, all of which are reviewed regularly.

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

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

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

During 2012 all remaining DC assets in respect of employees joining on or after 1 April 2002 were transferred to the new Master Trust arrangement with Legal and General.

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'). M&S has grown from a single market stall to become an international, multi-channel retailer. With 766 stores across the UK and a growing e-commerce business, we sell high quality, great value food and remain the UK market leaders in womenswear, lingerie and menswear. We aim to provide the best shopping experience for our customers. We now operate in 51 territories across Europe, the Middle East and Asia and continue to grow our international presence through a multi-channel approach.

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 30 March 2013 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 is incorporated by reference and can be found in the following sections:

- Chairman's statement on pages 2 to 3
- Strategic review on pages 8 to 33
- Our plan in action on pages 10 to 11
- Principal risks and uncertainties on pages 45 to 48
- Financial review on pages 34 to 37
- Social, environmental and ethical matters on pages 32 to 33.

More information is given in the How We Do Business report available on our website at marksandspencer.com/plana2013

Pages 1 to 76 inclusive (together with the sections of the Annual Report incorporated by reference) consist of a Directors' report that has been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

Other information to be disclosed in the Directors' report is given in this section.

Profit and dividends

The profit for the financial year, after taxation, amounts to £466.7m (last year £573.1m). The directors have declared dividends as follows:

Ordinary shares	£m
Paid interim dividend of 6.2p per share (last year 6.2p per share)	99.0
Proposed final dividend of 10.8p per share (last year 10.8p per share)	173.5
Total ordinary dividend, 17.0p per share (last year 17.0p per share)	272.5

The final ordinary dividend will be paid on 12 July 2013 to shareholders whose names are on the Register of Members at the close of business on 31 May 2013.

Share capital

The Company's issued ordinary share capital as at 30 March 2013 comprised a single class of ordinary share. Details of movements in the issued share capital can be found in note 24 to the financial statements. Each share carries the right to one vote at general meetings of the Company.

This year saw the first maturity of the 2009 ROI Save As You Earn Share Option Scheme, with individuals being able to exercise options at the price of 292p.

During the period, 8,381,090 ordinary shares in the Company were issued as follows:

- 868,952 shares under the terms of the 2002 Executive Share Option Scheme at prices between 270p and 352p.
- 7,369,406 shares under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 203p and 319p.
- 142,732 shares under the terms of the ROI Employees' Save As You Earn Share Option Scheme at the price of 292p.

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

Rights and obligations attaching to shares

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

Powers for the Company issuing or buying back its own shares

The Company was authorised by shareholders, at the 2012 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 30 March 2013. This standard authority is renewable annually; the directors will seek to renew this authority at the 2013 AGM. It is the Company's present intention to cancel any shares it buys back, rather than hold them in treasury.

The directors were granted authority at the 2012 AGM to allot relevant securities up to a nominal amount of £133,890,820. That authority will apply until the conclusion of the 2013 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 £134,566,483 and (ii) comprising equity securities up to a nominal amount of £269,132,966 (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 2014 or, if earlier, on 29 September 2014.

A special resolution will also be proposed to renew the directors' powers to make non pre-emptive issues for cash in connection with rights issues and otherwise up to a nominal amount of £20,184,972. 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 161 million ordinary shares and sets the minimum and maximum prices which will be paid.

Interests in voting rights
Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 30 March 2013, the following information has been received, in accordance with DTR5, from holders of notifiable interests in the Company's issued share capital.

	Ordinary shares	% of capital	Nature of holding
AXA S.A.	76,111,596	4.81%	Direct & indirect
Brandes Investment Partners, L.P	74,959,501	4.73%	Indirect interest
Capital Research & Management	63,140,887	3.93%	Indirect interest
The Wellcome Trust	47,464,282	3.01%	Direct interest

In the period 30 March 2013 to 20 May 2013 we recorded the following disclosures in accordance with DTR5. Capita Research and Management below 3% and Legal & General 3.05%.

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

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

- the £400m Medium Term Notes issued by the Company on 30 November 2009, the £300m Medium Term Notes issued by the company on 6th December 2011 and the £400m Medium Term Notes issued by the Company on 12 December 2012 to various institutions ('MTN') and under the Group's £3bn Euro Medium Term Note (EMTN) programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN;
- the $500m US Notes issued by the Company to various institutions on 6 December 2007 under section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note;
- the $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 £1.325bn Credit Agreement dated 29 September 2011 between the Company and various banks contains a provision such that, upon a change of control event, unless new terms are agreed within 60 days, the facility under this agreement will be cancelled with all outstanding amounts becoming immediately payable with interest;
- the amended and restated Relationship Agreement dated 1 February 2012 (originally dated 9 November 2004 as amended on 1 March 2005), between HSBC and the Company and relating to M&S Bank, contains certain provisions which address a change of control of the Company. Upon a change of control the existing rights and obligations of the parties in respect of M&S Bank continue and HSBC gains certain limited additional rights in respect of existing customers of the new controller of the Company. Where a third party arrangement is in place for the supply of financial services products to existing customers of the new controller, the Company is required to procure the termination of such arrangement as soon as reasonably practicable (whilst not being required to do anything that would breach any contract in place in respect of such arrangement). Where a third party arrangement is so terminated, or does not exist, HSBC gains certain exclusivity rights in respect of the sale of financial services products to the existing customers of the new controller. Where the Company undertakes a re-branding exercise with the new controller following a change of control (which includes using any M&S brand in respect of the new controller's business or vice versa), HSBC gains certain termination rights (exercisable at its election) in respect of the Relationship Agreement;
- the Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

Board of directors
The membership of the Board and biographical details of the directors are given on page 40 and 41 and are incorporated into this report by reference. Details of directors' beneficial and non-beneficial interests in the shares of the Company are shown on page 66. Options granted under the Save As You Earn (SAYE) Share Option and Executive Share Option Schemes are shown on pages 69 to 70. Further information regarding employee share option schemes is given in note 13 to the financial statements.

Kate Bostock stepped down from the Board as Executive Director General Merchandise on 1 October 2012. John Dixon was appointed Executive Director, General Merchandise on 1 October 2012 having previously been Executive Director, Food. Steve Rowe joined the Board on 1 October 2012 as Executive Director, Food. Andy Halford joined the Board as a non-executive director on 1 January 2013 and will be appointed Chairman of the Audit Committee following Jeremy Darroch stepping down from the Board in June 2013.

Other disclosures continued

Steve Sharp will step down from the Board following the Annual General Meeting on 9 July 2013 and will continue to work in the business as Creative Director until 28 February 2014.

Patrick Bousquet-Chavanne will take over responsibility for marketing and will be put forward for election to the Board as Executive Director, Marketing and Business Development at the AGM on 9 July 2013 to take up this new role from 10 July.

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, all directors will stand for annual election at the 2013 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 30 March 2013 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 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 eighteenth meeting of the European Works Council ('EWC') (established in 1995) will take place in September 2013. This Council provides an additional forum for informing, consulting and involving employee representatives from the countries in the European Community. The EWC includes members from our partly owned company in the Czech Republic, as well as representatives from Greece, Bulgaria, France, Slovenia, Romania, 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 Directors of International and Multi-channel and the Director of Plan A, which all have an impact across the European Community.

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

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

We have a well established interactive wellbeing website, called planahealth.com, a completely bespoke website and service designed exclusively for M&S employees which was updated and re-launched in October 2012. It gives any employee the opportunity to access a wealth of information, help and support. We cover all areas of wellbeing, from healthy eating and exercise to help in overcoming issues such as stress, financial challenges, achieving a positive work-life balance and problems with sleeping. New this year is access to free physiotherapy, an enhanced counselling service and an improved wellbeing personal coach service.

The response has been excellent with 13,000 employees making personal pledges to improve a specific health or wellbeing issue. Employees are able to interact with one another, post information about clubs and groups in their area and can gain access to information about corporate projects which link to their personal health pledges.

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 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 86 years old and joined the business at age 80. The Company once again featured in The Times Top 50 places for Women to work in April 2013 and considers this to highlight 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. This year we have focused on introducing this scheme into our new distribution centre in Castle Donington, where we are working with Remploy to support people with disabilities and health conditions into work.

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") impose obligations on M&S relating to relationships with its suppliers of groceries. M&S operates systems and controls to ensure compliance with the Order and GSCOP including the following:

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

Under 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 report to the Audit Committee on 10 May 2013 covering the period from 1 April 2012 to 30 March 2013. In accordance with the Order, a summary of that compliance report is set out below:

M&S believes that it has complied in full with GSCOP and the Order during the relevant period. Only two suppliers alleged breaches of the Order/GSCOP. One of the allegations led to a dispute, which is detailed below, and the other was withdrawn by the supplier and the issue resolved to the satisfaction of both parties.

One formal dispute has arisen under the Order/GSCOP between M&S and a grocery supplier in the reporting period. M&S completely denies any breach and arbitration proceedings have not yet been initiated by the supplier.

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 25 and 60 days after the stock was invoiced
- food payments are received between 19 and 54 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 30 March 2013 were 24 days, or 16 working days (last year 26 days, or 17 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 Directors believe that the open market value of the properties of the Group exceeds their net book value.

Charitable donations
In line with our Plan A commitments, during the year, the Group made charitable donations to support the community of £11m (last year £11.4m), excluding management costs and memberships. These principally consisted of cash donations of £6.2m (last year £6.9m) which included UNICEF, WWF, MCS, Breakthrough Breast Cancer, Macmillan Cancer Support,

Other disclosures continued

Royal British Legion, our Marks & Start programme and local community donations. We also donated £1.2m (last year £1.3m) of employee time, principally from fundraising, volunteering, Marks & Start and school work experience, and stock donations of £3.6m (last year £3.2m) to a variety of charities, including Shelter and The Newlife Foundation.

We also had another successful year supporting a number of our charity partners in raising funds of £8.2m (last year £8.5m). This principally consisted of funds raised from customer clothing donations to Oxfam through 'Shwopping' our clothes recycling initiative, funds raised by our Marks & Start charities as a result of M&S support and other employee and customer donations.

Political donations

No political donations were made during the year ended 30 March 2013. 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 48. 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.

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 2013 AGM.

Annual General Meeting

The AGM of Marks and Spencer Group plc will be held at Wembley Stadium, London on 9 July 2013 at 11am. The Notice of Meeting 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 adequate 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, whose names and functions are listed on pages 40 and 41 of the Annual Report, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; 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.

By order of the Board
Amanda Mellor, Group Secretary
London
20 May 2013

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 52 weeks ended 30 March 2013 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statements of financial position, the Consolidated statement of changes in equity and Company statement of changes in shareholders' equity, the Consolidated cash flow information 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 76, 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 2013 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 30 March 2013 and of the Group's profit and Group's and parent company's cash flows for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 76, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance 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
20 May 2013

Financial statements

Consolidated income statement

	Notes	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Revenue	2, 3	**10,026.8**	9,934.3
Operating profit	2, 3	**756.0**	746.5
Finance income	6	**26.5**	48.3
Finance costs	6	**(218.2)**	(136.8)
Profit before tax	4	**564.3**	658.0
Income tax expense	7	**(106.3)**	(168.4)
Profit for the year		**458.0**	489.6
Attributable to:			
Equity shareholders of the Company		**466.7**	513.1
Non-controlling interests		**(8.7)**	(23.5)
		458.0	489.6
Basic earnings per share	8	**29.2p**	32.5p
Diluted earnings per share	8	**29.0p**	32.2p
Non-GAAP measures: Underlying profit before tax			
Profit before tax		**564.3**	658.0
Adjusted for:			
Strategic programme costs	5	**6.6**	18.4
Restructuring costs	5	**9.3**	–
IAS 36 Impairment of assets	5	**–**	44.9
IAS 39 Fair value movement of put option over non-controlling interest in Czech business	5	**–**	(15.6)
IAS 39 Fair value movement of embedded derivative	5	**(5.8)**	0.2
Fair value movement on buy back of the Puttable Callable Reset medium-term notes	5	**75.3**	–
Reduction in M&S Bank income for the impact of the financial product mis-selling provision	5	**15.5**	–
Underlying profit before tax	1	**665.2**	705.9
Underlying basic earnings per share	8	**32.7p**	34.9p
Underlying diluted earnings per share	8	**32.5p**	34.6p

Consolidated statement of comprehensive income

	Notes	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Profit for the year		**458.0**	489.6
Other comprehensive income:			
Foreign currency translation differences		**7.9**	(15.1)
Actuarial gains/(losses) on retirement benefit schemes	11	**90.7**	(189.9)
Tax on retirement benefit schemes		**(19.9)**	50.4
Cash flow and net investment hedges			
– fair value movements in other comprehensive income		**33.6**	53.0
– reclassified and reported in net profit		**(26.0)**	(23.0)
– amount recognised in inventories		**(13.6)**	13.7
Tax on cash flow hedges and net investment hedges		**(0.4)**	(7.3)
Other comprehensive income/(loss) for the year, net of tax		**72.3**	(118.2)
Total comprehensive income for the year		**530.3**	371.4
Attributable to:			
Equity shareholders of the Company		**539.0**	394.9
Non-controlling interests		**(8.7)**	(23.5)
		530.3	371.4

Consolidated statement of financial position

	Notes	As at 30 March 2013 £m	As at 31 March 2012 £m
Assets			
Non-current assets			
Intangible assets	14	**695.0**	584.3
Property, plant and equipment	15	**5,033.7**	4,789.9
Investment property		**15.8**	15.9
Investment in joint ventures		**15.5**	14.4
Other financial assets	16	**3.0**	3.0
Retirement benefit asset	11	**206.1**	91.3
Trade and other receivables	17	**265.4**	270.2
Derivative financial instruments	21	**65.3**	44.2
		6,299.8	5,813.2
Current assets			
Inventories		**767.3**	681.9
Other financial assets	16	**16.9**	260.5
Trade and other receivables	17	**245.0**	253.0
Derivative financial instruments	21	**42.5**	67.0
Current tax assets		**3.1**	1.6
Cash and cash equivalents	18	**193.1**	196.1
		1,267.9	1,460.1
Total assets		**7,567.7**	7,273.3
Liabilities			
Current liabilities			
Trade and other payables	19	**1,503.8**	1,449.1
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**71.9**	71.9
Borrowings and other financial liabilities	20	**558.7**	327.7
Derivative financial instruments	21	**13.7**	60.5
Provisions	22	**19.2**	8.4
Current tax liabilities		**71.0**	87.8
		2,238.3	2,005.4
Non-current liabilities			
Retirement benefit deficit	11	**13.1**	13.3
Trade and other payables	19	**292.1**	280.8
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**550.7**	–
Borrowings and other financial liabilities	20	**1,727.3**	1,948.1
Derivative financial instruments	21	**13.1**	27.2
Provisions	22	**16.0**	24.0
Deferred tax liabilities	23	**230.7**	195.7
		2,843.0	2,489.1
Total liabilities		**5,081.3**	4,494.5
Net assets		**2,486.4**	2,778.8
Equity			
Issued share capital	24	**403.5**	401.4
Share premium account		**315.1**	294.3
Capital redemption reserve		**2,202.6**	2,202.6
Hedging reserve		**9.2**	14.8
Other reserve		**(6,542.2)**	(6,114.3)
Retained earnings		**6,117.2**	5,991.4
Total shareholders' equity		**2,505.4**	2,790.2
Non-controlling interests in equity		**(19.0)**	(11.4)
Total equity		**2,486.4**	2,778.8

The financial statements were approved by the Board and authorised for issue on 20 May 2013. The financial statements also comprise the notes on pages 82 to 109.

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 3 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
Profit/(loss) for the year	–	–	–	–	–	513.1	513.1	(23.5)	489.6
Other comprehensive income:									
Foreign currency translation	–	–	–	(1.1)	–	(14.0)	(15.1)	–	(15.1)
Actuarial losses on retirement benefit schemes	–	–	–	–	–	(189.9)	(189.9)	–	(189.9)
Tax on retirement benefit schemes	–	–	–	–	–	50.4	50.4	–	50.4
Cash flow and net investment hedges									
– fair value movements in other comprehensive income	–	–	–	43.8	–	9.2	53.0	–	53.0
– reclassified and reported in net profit[3]	–	–	–	(23.0)	–	–	(23.0)	–	(23.0)
– amount recognised in inventories	–	–	–	13.7	–	–	13.7	–	13.7
Tax on cash flow hedges and net investment hedges	–	–	–	(7.3)	–	–	(7.3)	–	(7.3)
Other comprehensive income	–	–	–	26.1	–	(144.3)	(118.2)	–	(118.2)
Total comprehensive income/(expenses)	–	–	–	26.1	–	368.8	394.9	(23.5)	371.4
Transactions with owners:									
Dividends	–	–	–	–	–	(267.8)	(267.8)	–	(267.8)
Transactions with non-controlling shareholders	–	–	–	–	–	(6.4)	(6.4)	8.2	1.8
Recognition of financial liability	–	–	–	–	(71.9)	–	(71.9)	–	(71.9)
Shares issued on exercise of employee share options	5.2	39.1	–	–	–	–	44.3	–	44.3
Purchase of own shares held by employee trusts	–	–	–	–	–	(13.2)	(13.2)	–	(13.2)
Credit for share-based payments	–	–	–	–	–	32.5	32.5	–	32.5
Deferred tax on share schemes	–	–	–	–	–	4.3	4.3	–	4.3
At 31 March 2012	401.4	294.3	2,202.6	14.8	(6,114.3)	5,991.4	2,790.2	(11.4)	2,778.8
At 1 April 2012	**401.4**	**294.3**	**2,202.6**	**14.8**	**(6,114.3)**	**5,991.4**	**2,790.2**	**(11.4)**	**2,778.8**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**466.7**	**466.7**	**(8.7)**	**458.0**
Other comprehensive income:									
Foreign currency translation	**–**	**–**	**–**	**(1.5)**	**–**	**9.4**	**7.9**	**–**	**7.9**
Actuarial gain on retirement benefit schemes	**–**	**–**	**–**	**–**	**–**	**90.7**	**90.7**	**–**	**90.7**
Tax on retirement benefit schemes	**–**	**–**	**–**	**–**	**–**	**(19.9)**	**(19.9)**	**–**	**(19.9)**
Cash flow and net investment hedges									
– fair value movements in other comprehensive income	**–**	**–**	**–**	**35.9**	**–**	**(2.3)**	**33.6**	**–**	**33.6**
– reclassified and reported in net profit[3]	**–**	**–**	**–**	**(26.0)**	**–**	**–**	**(26.0)**	**–**	**(26.0)**
– amount recognised in inventories	**–**	**–**	**–**	**(13.6)**	**–**	**–**	**(13.6)**	**–**	**(13.6)**
Tax on cash flow hedges and net investment hedges	**–**	**–**	**–**	**(0.4)**	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Other comprehensive income	**–**	**–**	**–**	**(5.6)**	**–**	**77.9**	**72.3**	**–**	**72.3**
Total comprehensive income/(expenses)	**–**	**–**	**–**	**(5.6)**	**–**	**544.6**	**539.0**	**(8.7)**	**530.3**
Transactions with owners:									
Dividends	**–**	**–**	**–**	**–**	**–**	**(271.3)**	**(271.3)**	**–**	**(271.3)**
Transactions with non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1.1**	**1.1**
Recognition of financial liability	**–**	**–**	**–**	**–**	**(427.9)**	**(178.1)**	**(606.0)**	**–**	**(606.0)**
Shares issued on exercise of employee share options	**2.1**	**20.8**	**–**	**–**	**–**	**–**	**22.9**	**–**	**22.9**
Credit for share-based payments	**–**	**–**	**–**	**–**	**–**	**28.0**	**28.0**	**–**	**28.0**
Deferred tax on share schemes	**–**	**–**	**–**	**–**	**–**	**2.6**	**2.6**	**–**	**2.6**
At 30 March 2013	**403.5**	**315.1**	**2,202.6**	**9.2**	**(6,542.2)**	**6,117.2**	**2,505.4**	**(19.0)**	**2,486.4**

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. Last year the reserve also included discretionary distributions to the Marks & Spencer UK Pension Scheme, which following the Group's payment of an interim dividend in relation to 2011/12 and the resultant recognition of the annual distribution of £71.9m as a financial liability was £427.9m. On 21 May 2012 the Group changed the terms of the Marks and Spencer Scottish Limited Partnership and the total equity instrument of £427.9m was derecognised and the fair value of the remaining distributions of £606.0m was recognised as a financial liability (see note 12).
2. The 'Retained earnings reserve' includes a cumulative £14.5m gain (last year £5.1m gain) in the currency reserve.
3. Amounts reclassified and reported in net profit have all been recorded in cost of sales.

Consolidated cash flow information

	Notes	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Cash flows from operating activities			
Cash generated from operations	26	**1,246.2**	1,352.1
Income tax paid		**(106.0)**	(149.1)
Net cash generated from operating activities		**1,140.2**	1,203.0
Cash flows from investing activities			
Purchase of property, plant and equipment		**(642.6)**	(564.3)
Purchase of intangible assets		**(187.1)**	(156.4)
Sale/(purchase) of current financial assets		**243.4**	(44.8)
Interest received		**5.9**	7.7
Net cash used in investing activities		**(580.4)**	(757.8)
Cash flows from financing activities			
Interest paid		**(135.2)**	(135.9)
Cash inflow/(outflow) from borrowings		**0.5**	(41.4)
Drawdown of syndicated loan notes		**81.0**	–
Issue of medium-term notes		**395.6**	295.5
Redemption of medium-term notes		**(606.4)**	(307.6)
Decrease in obligations under finance leases		**(11.0)**	(13.0)
Payment of liability to the Marks & Spencer UK Pension Scheme		**(71.9)**	(71.9)
Equity dividends paid		**(271.3)**	(267.8)
Shares issued on exercise of employee share options		**22.9**	44.3
Purchase of own shares by employee trust		**–**	(13.2)
Net cash used in financing activities		**(595.8)**	(511.0)
Net cash outflow from activities		**(36.0)**	(65.8)
Effects of exchange rate changes		**0.9**	(1.9)
Opening net cash		**195.8**	263.5
Closing net cash	27	**160.7**	195.8

	Notes	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		**(1,857.1)**	(1,900.9)
Net cash outflow from activities		**(36.0)**	(65.8)
(Decrease)/increase in current financial assets		**(243.4)**	44.8
Decrease in debt financing		**132.7**	138.4
Partnership liability to the Marks & Spencer UK Pension Scheme (non-cash)		**(606.0)**	(71.9)
Exchange and other non-cash movements		**(4.5)**	(1.7)
Movement in net debt		**(757.2)**	43.8
Closing net debt	27	**(2,614.3)**	(1,857.1)

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) and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted by the European Union 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 46 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.

There are no IFRS or IFRS IC interpretations that are effective for the first time in this financial year that have had a material impact on the Group.

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

IAS 19, 'Employee Benefits' has been revised and was endorsed by the EU in June 2012. It is effective for periods beginning on or after 1 January 2013. The revised standard will change the amounts recognised in the income statement and in other comprehensive income. The expected return on plan assets and the interest cost on liabilities are replaced by a new component of the income statement charge – interest on the net retirement benefit asset/liability calculated by applying the discount rate to the net defined benefit asset/liability. The revised standard has retrospective application. Had the revised standard been applied to the 2012/13 results the underlying profit for the year would have been £17m lower, with a compensating credit in other comprehensive income.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair measurement and disclosure requirements for use across IFRS. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. IFRS 13 is not expected to have a material impact on the Group.

There are no other IFRS or IFRS IC interpretations that are not yet effective that would be expected to have a material impact on the Group.

The Marks and Spencer Scottish Limited Partnership has taken an exemption under paragraph 7 of the Partnership (Accounts) Regulations 2008 for 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, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

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.

Subsidiaries

Subsidiary undertakings are all entities (including special purpose 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 are included from the date of acquisition.

The separable net assets, including property, plant and equipment and intangible assets, of the newly acquired subsidiary undertakings are incorporated into the consolidated financial statements on the basis of the fair value as at the effective date of control.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Revenue

Revenue comprises sales of goods to customers outside the Group less an appropriate deduction for actual and expected returns, discounts and loyalty scheme vouchers, and is stated net of value added tax and other sales taxes. Revenue is recognised when goods are delivered and the significant risks and rewards of ownership have been transferred to the buyer.

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.

For defined benefit pension schemes, the difference between the fair value of the assets and the present value of the defined benefit obligation is recognised as an asset or liability in the statement of financial position. The defined benefit obligation is actuarially calculated using the projected unit credit method.

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.

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.

1 Accounting policies continued

Intangible assets

A. Goodwill Goodwill arising on consolidation represents the excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over 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 annually or as triggering events occur. 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. Definite life intangibles are amortised on a straight-line basis over their estimated useful lives. Indefinite life intangibles are tested for impairment annually or as triggering events occur. 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 goods and services, as well as internal 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. Any impairment in value is charged to the income statement.

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. Property is not revalued for accounting purposes. 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.

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 – depreciated 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.

Leasing

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, a rent free period) is recognised as deferred income and is released over the life of the lease.

Leasehold prepayments

Payments made to acquire leasehold land are included in prepayments at cost and are amortised over the life of the lease.

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 payments received within 48 hours.

Inventories

Inventories are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Were this method applied in the prior year, in place of the previously adopted retail method, there would have been no change in the value of inventory. Cost includes all direct expenditure and other attributable costs incurred in bringing inventories to their present location and condition. 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 best estimate of the expenditure required to settle the obligation at the end of the reporting period, 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.

Notes to the financial statements continued

1 Accounting policies continued

Taxation continued

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.

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 liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

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 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 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 using 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 end of the reporting period. 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.

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. 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.

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 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.

1 Accounting policies continued

A. Cash flow hedges continued
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 the 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 net investments are recognised 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 comprehensive income 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 and brands The Group is required to test annually or as triggering events occur, whether the goodwill or brands have 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, 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 deferred income in relation to loyalty scheme redemptions 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 balances are reviewed regularly and updated to reflect management's latest best estimates. However, actual returns and redemptions could vary from those 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;
- significant and one-off impairment charges that distort underlying trading;
- costs relating to strategy changes that are not considered normal operating costs of the underlying business;
- restructuring costs;
- fair value movement in financial instruments; and
- reduction in income received from HSBC in relation to M&S Bank due to a non recurring provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products.

Notes to the financial statements continued

2 Segmental information

IFRS 8 requires operating segments to be identified on the basis of internal reporting on 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 across each operating segment. 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, by subcategory.

The following is an analysis of the Group's revenue and results by reportable segment:

			2013			2012
	Management £m	**Adjustment[2] £m**	**Statutory £m**	Management (Restated)[3] £m	Adjustment (Restated)[3] £m	Statutory £m
General Merchandise	**4,090.3**	**3.6**	**4,093.9**	4,197.3	(2.2)	4,195.1
Food	**4,857.5**	**–**	**4,857.5**	4,673.1	–	4,673.1
UK revenue	**8,947.8**	**3.6**	**8,951.4**	8,870.4	(2.2)	8,868.2
Franchised	**392.6**	**–**	**392.6**	379.4	–	379.4
Owned	**682.8**	**–**	**682.8**	689.4	(2.7)	686.7
International revenue	**1,075.4**	**–**	**1,075.4**	1,068.8	(2.7)	1,066.1
Group revenue	**10,023.2**	**3.6**	**10,026.8**	9,939.2	(4.9)	9,934.3
UK operating profit[1]	**661.4**	**(25.6)**	**635.8**	676.6	(18.6)	658.0
International operating profit	**120.2**	**–**	**120.2**	133.4	(44.9)	88.5
Group operating profit	**781.6**	**(25.6)**	**756.0**	810.0	(63.5)	746.5
Finance income	**26.5**	**–**	**26.5**	32.7	15.6	48.3
Finance costs	**(142.9)**	**(75.3)**	**(218.2)**	(136.8)	–	(136.8)
Profit before tax	**665.2**	**(100.9)**	**564.3**	705.9	(47.9)	658.0

1. UK statutory profit includes £35.6m (last year £50.7m) in respect of fees received from HSBC in relation to M&S Bank (formerly M&S Money). UK management operating profit includes fees in relation to M&S Bank of £51.1m (last year £50.7m), which reflects a non GAAP adjustment of £15.5m as detailed in note 5.
2. Adjustments to revenue relate to an adjustment for refunds recognised in cost of sales for management accounting purposes. Management profit excludes the adjustments (income or charges) made to reported profit before tax that are one-off in nature, significant and distort the Group's underlying performance (see note 5).
3. Following a change in the presentation of internal reporting, management revenue and the corresponding adjustments that reconcile to statutory revenue have been re-presented. Certain revenue deductions (such as staff discounts and loyalty points) that were previously recognised in management cost of sales are now recognised in management revenue to align with statutory accounting. There have been no changes to the reported segments.

Other segmental information

			2013			2012
	UK £m	**International £m**	**Total £m**	UK £m	International £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	**761.6**	**59.7**	**821.3**	671.4	66.1	737.5
Depreciation and amortisation	**421.7**	**28.8**	**450.5**	435.8	34.3	470.1
Impairment and asset write-offs	**9.6**	**7.2**	**16.8**	7.3	50.5	57.8
Total assets	**6,120.4**	**1,447.3**	**7,567.7**	6,247.1	1,026.2	7,273.3
Non-current assets	**4,964.1**	**1,335.7**	**6,299.8**	4,894.6	918.6	5,813.2

3 Expense analysis

	2013 Underlying £m	2013 Adjustments £m	2013 Total £m	2012 Underlying £m	2012 Adjustments £m	2012 Total £m
Revenue	**10,026.8**	**–**	**10,026.8**	9,934.3	–	9,934.3
Cost of sales	**(6,230.3)**	**–**	**(6,230.3)**	(6,179.1)	–	(6,179.1)
Gross profit	**3,796.5**	**–**	**3,796.5**	3,755.2	–	3,755.2
Selling and administrative expenses	**(3,107.0)**	**–**	**(3,107.0)**	(3,021.9)	–	(3,021.9)
Other operating income	**92.1**	**–**	**92.1**	76.7	–	76.7
Non-GAAP adjustments to underlying profit (see note 5)	**–**	**(25.6)**	**(25.6)**	–	(63.5)	(63.5)
Operating profit	**781.6**	**(25.6)**	**756.0**	810.0	(63.5)	746.5

The selling and administrative expenses are further analysed below:

	2013 £m	2012 £m
Employee costs (see note 10A)	**1,321.2**	1,253.5
Occupancy costs	**651.2**	637.9
Repairs, renewals and maintenance of property	**96.7**	101.4
Depreciation, amortisation and asset write-offs	**463.2**	479.7
Other costs	**574.7**	549.4
Selling and administrative expenses	**3,107.0**	3,021.9

4 Profit before taxation

The following items have been included in arriving at profit before taxation:

	2013 £m	2012 £m
Net foreign exchange gains	**–**	0.1
Cost of inventories recognised as an expense	**5,639.6**	6,127.0
Depreciation of property, plant, and equipment		
– owned assets	**364.2**	393.5
– under finance leases	**9.9**	11.3
Amortisation of intangible assets	**76.4**	65.3
Operating lease rentals payable		
– property	**293.9**	278.7
– fixtures, fittings and equipment	**4.2**	7.8

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:

	2013 £m	2012 £m
Annual audit of the Company and the consolidated financial statements	**0.8**	0.6
Audit of subsidiary companies	**1.0**	1.0
Other assurance services	**0.2**	0.3
Tax compliance services	**0.3**	0.3
Tax advisory services	**0.3**	0.1
Other non-audit services	**0.5**	0.1
	3.1	2.4

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, significant and distort the Group's underlying performance. These adjustments include:

- Strategic programme costs relating to the strategy announcements made in November 2010 and include the costs associated with the Focus on the UK plans. This includes brand segmentation and business integration costs, asset write-offs and accelerated depreciation. These costs are not considered normal operating costs of the business;
- Restructuring costs relating to the commencement of the Group's strategy to transition to a one tier distribution network and the closure costs of legacy logistics sites;
- IAS 36 Impairment of assets – last year, the carrying value of the Marks and Spencer Marinopolous B.V. goodwill was fully impaired to reflect its recoverable value and the net book value of property, plant and equipment in loss making stores in the Greece group was impaired due to the continuing decline of the Greek economy;
- IAS 39 Fair value movement on put option over non-controlling interest in Czech business – the put option value has been revised to zero to reflect the latest three year business plan;
- IAS 39 Fair value movement of the embedded derivative in a lease contract based upon the expected future RPI versus the lease contract in which rent increases are capped at 2.5%, with a floor of 1.5%;
- Fair value movement of the Puttable Callable Reset medium-term notes (PCR notes) realised on the repurchase of debt – in December 2007 the Group issued £250m of 30 year puttable callable bonds which included a coupon rate reset after five years based on a fixed underlying 25 year interest rate. On this basis the rate was reset at 9%. In light of continued low long-term market interest rates and the successful bond issuance in December 2012, the Group bought back and cancelled these bonds in January 2013, resulting in a one-off fair value loss. This charge is the fair value movement of the bond net of any immaterial associated unamortised bond costs and fees. It is not considered a normal finance cost of the business; and
- The Group has an economic interest in M&S Bank, a wholly-owned subsidiary of HSBC, by way of a Relationship Agreement that entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. The Group does not share in any losses of M&S Bank and is not obligated to refund any fees received from HSBC although future income may be impacted by significant one-off deductions. In the current year, the fee income has been impacted by the deduction of the estimated liability for providing redress to customers in respect of possible mis-selling of financial products. This estimated liability has been recognised by M&S Bank in its audited financial statements for the year ended 31 December 2012, the Group's share of which reduces the overall income due to it (under the Relationship Agreement) and has been treated as an adjustment to reported profit before tax on the basis that the directors believe that the impact of the provision recognised by M&S Bank materially distorts the Group's underlying performance. The Group expects there to be a further reduction in fee income of c.£45m in the year to 29 March 2014. The effect of the significant, one-off adjustments to the Group's income received from HSBC in the prior year was not material. We are discussing with M&S Bank whether these charges are properly for our account under the terms of our agreement with HSBC.

The adjustments made to reported profit before tax to arrive at underlying profit before tax are:

	Note	**2013 £m**	2012 £m
Strategic programme costs		**(6.6)**	(18.4)
Restructuring costs		**(9.3)**	–
IAS 36 Impairment of assets	14, 15	**–**	(44.9)
IAS 39 Fair value movement of put option over non-controlling interest in Czech business	6, 21	**–**	15.6
IAS 39 Fair value movement of embedded derivative	21	**5.8**	(0.2)
Fair value movement on buy back of the Puttable Callable Reset medium-term notes	6, 20	**(75.3)**	–
Reduction in M&S Bank income for the impact of the financial product mis-selling provision	2	**(15.5)**	–
Total adjustments		**(100.9)**	(47.9)

6 Finance income/costs

	2013 £m	2012 £m
Bank and other interest receivable	**5.3**	7.1
Pension net finance income (see note 11E)	**21.2**	25.6
Underlying finance income	**26.5**	32.7
Fair value movement of put option over non-controlling interest in Czech business (see note 5)	**–**	15.6
Finance income	**26.5**	48.3
Interest on bank borrowings	**(2.1)**	(5.5)
Interest payable on syndicated bank facility	**(6.1)**	(3.0)
Interest payable on medium-term notes	**(114.3)**	(126.4)
Interest payable on finance leases	**(2.8)**	(0.7)
Unwind of discount on financial instruments	**(1.0)**	(1.2)
Unwinding of discount on partnership liability to the Marks & Spencer UK Pension Scheme	**(16.6)**	–
Underlying finance costs	**(142.9)**	(136.8)
Fair value movement on buy back of the Puttable Callable Reset medium-term notes (see note 5)	**(75.3)**	–
Finance costs	**(218.2)**	(136.8)
Net finance costs	**(191.7)**	(88.5)

7 Income tax expense

A. Tax charge

	2013 £m	2012 £m
Current tax		
UK corporation tax on profits for the year		
– current year	**125.5**	175.9
– adjustments in respect of prior years	**(24.6)**	(9.3)
UK current tax	**100.9**	166.6
Overseas current tax		
– current year	**12.8**	11.6
– adjustments in respect of prior years	**3.8**	–
Total current tax	**117.5**	178.2
Deferred tax		
– origination and reversal of temporary differences	**(2.7)**	(10.5)
– adjustments in respect of prior years	**(2.8)**	14.0
– changes in tax rate	**(5.7)**	(13.3)
Total deferred tax (see note 23)	**(11.2)**	(9.8)
Total income tax expense	**106.3**	168.4

B. Tax reconciliation

	2013 £m	2012 £m
Profit before tax	**564.3**	658.0
Tax at the standard UK corporation tax rate of 24% (last year 26%)	**135.4**	171.1
Depreciation, charges and other amounts on non-qualifying fixed assets	**3.0**	3.6
Other income and expenses not taxable or deductible	**(8.1)**	(11.1)
Deferred tax rate change benefit	**(5.4)**	(13.1)
Overseas profits taxed at rates different to those of the UK	**(4.0)**	(8.6)
Benefit of current year losses not recognised	**9.3**	14.3
Adjustments to tax charge in respect of prior periods	**(3.2)**	4.7
Adjustments to underlying profit:		
IAS 36 Impairment of assets	**–**	11.7
IAS 39 Fair value movement of put option over non-controlling interest in Czech business	**–**	(4.0)
Deferred tax rate change benefit	**(0.3)**	(0.2)
Non-underlying adjustment to tax charge in respect of prior periods	**(20.4)**	–
Total income tax expense	**106.3**	168.4

The effective tax rate was 18.8% (last year 25.6%) and the underlying effective tax rate was 22.7% (last year 24.5%).

The non–underlying adjustment to the tax charge in respect of prior periods relates to the reassessment of historic tax liabilities following discussions with the tax authorities.

On 3 July 2012, the Finance Bill received its third reading in the House of Commons and so the previously announced reduced rate of corporation tax of 23% from 1 April 2013 was substantively enacted. The Group has remeasured its UK deferred tax assets and liabilities at the end of the reporting period at 23%, which has resulted in the recognition of a deferred tax credit of £5.7m in the income statement (reducing the total effective tax rate by 1%), and the recognition of a deferred tax credit of £4.0m in other comprehensive income. The Chancellor has further stated his intention to reduce the main rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes have not been substantively enacted at the date of the statement of financial position. Had these changes been enacted, then the cumulative effects would have been a credit to the income statement of £11.5m (21%) or £17.3m (20%) and a credit to other comprehensive income of £7.9m (21%) or £11.9m (20%).

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 items that are one-off in nature, significant and 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:

	2013 £m	2012 £m
Profit attributable to equity shareholders of the Company	**466.7**	513.1
(Less)/add (net of tax):		
Strategic programme costs	**5.0**	13.8
Restructuring costs	**7.1**	–
IAS 36 Impairment of assets	**–**	39.6
IAS 39 Fair value movement of put option over non controlling interest in Czech business	**–**	(15.6)
IAS 39 Fair value movement of embedded derivative	**(4.7)**	0.2
Fair value movement on buy back of the Puttable Callable Reset medium-term notes	**57.3**	–
Reduction in M&S Bank income for the impact of the financial product mis-selling provision	**11.8**	–
Non-underlying adjustment to tax charge in respect of prior periods	**(20.4)**	–
Underlying profit attributable to equity shareholders of the Company	**522.8**	551.1

	Million	Million
Weighted average number of ordinary shares in issue	**1,599.7**	1,579.3
Potentially dilutive share options under Group's share option schemes	**10.6**	12.9
Weighted average number of diluted ordinary shares	**1,610.3**	1,592.2

	Pence	Pence
Basic earnings per share	**29.2**	32.5
Diluted earnings per share	**29.0**	32.2
Underlying basic earnings per share	**32.7**	34.9
Underlying diluted earnings per share	**32.5**	34.6

9 Dividends

	2013 per share	2012 per share	**2013 £m**	2012 £m
Dividends on equity ordinary shares				
Paid final dividend	**10.8p**	10.8p	**172.3**	170.2
Paid interim dividend	**6.2p**	6.2p	**99.0**	97.6
	17.0p	17.0p	**271.3**	267.8

The directors have proposed a final dividend in respect of the year ended 30 March 2013 of 10.8p per share amounting to a dividend of £173.5m. It will be paid on 12 July 2013 to shareholders on the register of members as at close of business on 31 May 2013, subject to approval of shareholders at the Annual General Meeting, to be held on 9 July 2013. In line with the requirements of IAS 10 – 'Events after the reporting period', this dividend has not been recognised within these results.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. The shares will go ex-dividend on 29 May 2013. For those shareholders electing to receive the DRIP the last date for receipt of a new election is 21 June 2013.

The Group's policy to grow dividends in line with underlying earnings per share is explained in the Financial Review on page 34.

10 Employees

A. Aggregate remuneration

The aggregate remuneration and associated costs of Group employees were:

	2013 Total £m	2012 Total £m
Wages and salaries	**1,136.7**	1,061.3
Social security costs	**75.8**	77.7
Pension costs	**68.4**	57.7
Share-based payments (see note 13)	**25.8**	32.5
Employee welfare and other personnel costs	**51.0**	46.0
Capitalised staff costs	**(36.5)**	(21.7)
Total aggregate remuneration	**1,321.2**	1,253.5

Details of key management compensation are given in note 28.

B. Average monthly number of employees

	2013	2012
UK stores		
– management and supervisory categories	**5,511**	5,784
– other	**65,053**	63,003
UK head office		
– management and supervisory categories	**3,033**	2,782
– other	**922**	718
Overseas	**7,215**	6,450
Total average monthly number of employees	**81,734**	78,737

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 57,518 (last year 54,984).

C. Directors' emoluments

Emoluments of directors of the Company are summarised below. Further details are given in the Remuneration Report on pages 55 to 70.

	2013 £000	2012 £000
Aggregate emoluments	**8,149**	7,796

The emoluments include payments to directors who retired from the Board in 2012/13 of £482,000 (last year included payments and bonus entitlements to directors who have retired from the Board of £279,000).

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 13,000 active members (last year 14,000), 55,000 deferred members (last year 56,000) and 51,000 pensioners (last year 51,000). At the year end, the defined contribution section had some 33,000 active members (last year 9,000) and some 3,000 deferred members (last year 2,000).

The Group also operates a 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 of £47.2m (last year £32.1m), £23.0m (last year £12.0m) relates to the UK defined benefit section, £20.3m (last year £15.9m) to the UK defined contribution section and £3.9m (last year £4.2m) to other retirement benefit schemes.

Notes to the financial statements continued

11 Retirement benefits continued

A. Pensions and other post-retirement liabilities

	2013 £m	2012 £m
Total market value of assets	**6,930.0**	6,186.4
Present value of scheme liabilities	**(6,723.9)**	(6,095.1)
Net funded pension plan asset	**206.1**	91.3
Unfunded retirement benefits	**(0.8)**	(0.8)
Post-retirement healthcare	**(12.3)**	(12.5)
Net retirement benefit asset	**193.0**	78.0
Analysed in the statement of financial position as:		
Retirement benefit asset	**206.1**	91.3
Retirement benefit deficit	**(13.1)**	(13.3)
	193.0	78.0

B. Financial assumptions

A full actuarial valuation of the UK Defined Benefit Pension Scheme was carried out at 31 March 2012 and showed a deficit of £290m. A funding plan of £112m 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 and are as follows:

	2013 %	2012 %
Rate of increase in salaries	**1.0**	1.0
Rate of increase in pensions in payment for service	**2.4 – 3.2**	2.3 – 3.1
Discount rate	**4.3**	4.6
Inflation rate	**3.4**	3.1
Long-term healthcare cost increases	**7.1**	7.1

The inflation rate of 3.4% reflects the Retail Price Index (RPI) rate. Certain benefits have been calculated with reference to the Consumer Price Index (CPI) as the inflationary measure and in these instances a rate of 2.4% (last year 2.1%) has been used.

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.£115m (last year £110m). If the inflation rate increased by 0.1%, the IAS 19 surplus would decrease by c.£50m and if the inflation rate decreased by 0.1%, the IAS 19 surplus would increase by c.£75m.

C. Demographic assumptions

Apart from post retirement mortality, the demographic assumptions are in line with those adopted for the last formal actuarial valuation of the scheme performed as at 31 March 2012. The post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2012 updated to allow for anticipated longevity improvements over the subsequent years. The specific mortality rates used are based on the VITA tables, adjusted to allow for the experience of scheme pensioners. The life expectancies underlying the valuation are as follows:

		2013	2012
Current pensioners (at age 65)	– males	**22.4**	22.1
	– females	**24.1**	23.4
Future pensioners (at age 65)	– males	**21.8**	23.2
	– females	**24.5**	24.3

An increase of one year in the life expectancies would decrease the IAS 19 surplus by c.£230m.

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:

	2013 £m	2012 £m	2013 %	2012 %
Scottish Limited Partnership interest (see note 12)	**645.7**	664.8	**9**	11
UK equities	**224.0**	232.6	**3**	4
Overseas equities	**736.3**	777.4	**11**	13
Government bonds	**3,188.3**	1,750.9	**46**	28
Corporate bonds	**1,388.5**	1,455.7	**20**	23
Swaps[1]	**276.1**	275.9	**4**	4
Cash and other	**471.1**	1,029.1	**7**	17
Total market value of assets	**6,930.0**	6,186.4	**100**	100

1. The swaps hedge interest and inflation rate exposures within the schemes' liabilities.

The expected long-term rates of return are:

	2013 %	2012 %
Scottish Limited Partnership interest (see note 12)	**2.3**	3.5
UK equities	**7.8**	7.8
Overseas equities	**7.8**	7.8
Government bonds	**3.2**	3.3
Corporate bonds	**4.3**	4.9
Swaps	**3.0**	3.3
Cash and other	**3.0**	3.3
Overall expected return	**4.4**	4.9

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 150,955 (last year 107,216) ordinary shares in the Company through its investment in UK Equity Index Funds.

E. Analysis of amount charged against profits

	2013 £m	2012 £m
Operating cost		
Current service cost	**68.8**	56.7
Curtailment charge	**1.0**	1.0
Past service cost	**(1.4)**	–
	68.4	57.7
Finance cost		
Expected return on scheme assets	**(298.0)**	(307.4)
Interest on scheme liabilities	**276.8**	281.8
Net finance income	**(21.2)**	(25.6)
Total	**47.2**	32.1

F. Scheme assets

Changes in the fair value of the scheme assets are as follows:

	2013 £m	2012 £m
Fair value of scheme assets at start of year	**6,186.4**	5,398.1
Expected return on scheme assets[1]	**298.0**	307.4
Employer contributions	**70.9**	131.9
Benefits paid	**(235.0)**	(230.4)
Actuarial gain	**607.3**	581.0
Exchange movement	**2.4**	(1.6)
Fair value of scheme assets at end of year	**6,930.0**	6,186.4

1. The actual return on scheme assets was £905.3m (last year return of £888.4m).

Future contributions to the UK scheme will be made at the rate of 23.4% of pensionable salaries up to the next full actuarial valuation. The Group expects to contribute c.£28m to the UK defined benefit scheme for the year ended 29 March 2014.

Notes to the financial statements continued

11 Retirement benefits continued

G. Retirement benefit obligations

Changes in the present value of retirement benefit obligations are as follows:

	2013 £m	2012 £m
Present value of obligation at start of year	**6,108.4**	5,229.6
Current service cost	**68.8**	56.7
Curtailment charge	**1.0**	1.0
Past service cost	**(1.4)**	–
Interest cost	**276.8**	281.8
Benefits paid	**(235.0)**	(230.4)
Actuarial loss	**516.6**	770.9
Exchange movement	**1.8**	(1.2)
Present value of obligation at end of year	**6,737.0**	6,108.4
Analysed as:		
Present value of pension scheme liabilities	**6,723.9**	6,095.1
Unfunded pension plans	**0.8**	0.8
Post-retirement healthcare	**12.3**	12.5
Present value of obligation at end of year	**6,737.0**	6,108.4

H. Cumulative actuarial gains and losses recognised in equity

	2013 £m	2012 £m
Loss at start of year	**(1,412.8)**	(1,222.9)
Net actuarial gains/(losses) recognised in the year	**90.7**	(189.9)
Loss at end of year	**(1,322.1)**	(1,412.8)

I. History of experience gains and losses

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Experience adjustments arising on scheme assets	**607.3**	581.0	124.1	867.7	(1,280.3)
Experience (losses)/gains arising on scheme liabilities	**(5.3)**	(85.3)	(8.4)	36.2	81.2
Changes in assumptions underlying the present value of scheme liabilities	**(511.3)**	(685.6)	170.3	(1,155.5)	272.0
Actuarial gains/(losses) recognised in equity	**90.7**	(189.9)	286.0	(251.6)	(927.1)
Fair value of scheme assets	**6,930.0**	6,186.4	5,398.1	4,948.6	3,977.0
Present value of scheme liabilities	**(6,723.9)**	(6,095.1)	(5,215.5)	(5,298.6)	(4,112.4)
Pension scheme asset/(deficit)	**206.1**	91.3	182.6	(350.0)	(135.4)

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 (the Partnership). As such, the Partnership is consolidated into the results of the Group.

The Partnership holds £1.6bn (last year £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.

In 2009 it was agreed with the Trustee that this distribution was discretionary at the instance of Marks and Spencer plc. The discretionary right was exercisable if the Group did not pay a dividend or make any other form of return to its shareholders. On this basis, the future value of total discretionary scheduled payments was an an equity instrument, disclosed within other reserves.

On 21 May 2012 the Group changed the terms of the Partnership to waive the Group's limited discretionary right over the annual distributions from the Partnership to the Pension Trustee.

The change has been reflected by the derecognition of the related equity instruments and recognition of a financial liability. The financial liability has been initially measured at fair value of £606.0m, representing the present value of the remaining ten years of distributions of £71.9m per annum. The difference between the value of the derecognised equity instrument of £427.9m and the fair value of the liability has been recognised in equity in accordance with IAS 32. The change has no impact on the cash flows of the Group.

During the year to 30 March 2013 an interest charge of £16.6m was recognised in the income statement representing the unwinding of the discount included in this obligation.

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 £645.7m (last year £664.8m). The market value of this non-quoted financial asset is measured based on the expected cash flows and benchmark asset-backed credit spreads.

13 Share-based payments

The charge for share-based payments for the year was £25.8m (last year £32.5m). Of the total share-based payments charge, £13.4m (last year £15.0m) 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 60 to 62.

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.

	2013		2012	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the year	**47,245,342**	**259.3p**	54,295,921	249.9p
Granted	**9,977,206**	**312.0p**	18,366,990	258.0p
Exercised	**(7,369,406)**	**266.0p**	(19,345,308)	205.6p
Forfeited	**(3,575,404)**	**273.3p**	(4,327,447)	285.6p
Expired	**(1,004,451)**	**418.0p**	(1,744,814)	481.8p
Outstanding at end of the year	**45,273,287**	**265.2p**	47,245,342	259.3p
Exercisable at end of year	**1,700,575**	**366.9p**	2,803,103	278.9p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 370.4p (last year 325.0p).

Notes to the financial statements continued

13 Share-based payments continued

The fair values of the options granted during the year have been calculated using the Black-Scholes model assuming the inputs shown below:

	2013 3-year plan	2012 3-year plan
Grant date	**Nov 12**	Nov 11
Share price at grant date	**389p**	322p
Exercise price	**312p**	258p
Option life in years	**3 years**	3 years
Risk-free rate	**0.3%**	0.5%
Expected volatility	**25.2%**	31.4%
Expected dividend yield	**4.4%**	5.4%
Fair value of option	**74p**	67p

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 10% (last year 15%) 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	2013	2012	2013	2012	Option price
January 2007	**–**	583,961	**–**	0.2	559p
January 2008	**617,258**	655,213	**0.3**	1.2	517p
January 2009	**12,912,056**	15,727,797	**1.3**	1.9	203p
January 2010	**941,711**	6,349,388	**0.3**	1.2	292p
January 2011	**5,315,855**	6,016,473	**1.3**	2.2	319p
January 2012	**15,817,394**	17,912,510	**2.3**	3.2	258p
January 2013	**9,669,013**	–	**3.3**	–	312p
	45,273,287	47,245,342	**2.0**	2.3	265p

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 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 61. Awards under this scheme have been made in each year since 2005.

During the year, 9,333,652 shares (last year 7,887,169) were awarded under the Plan. The weighted average fair value of the shares awarded was 329.7p (last year 350.8p). As at 30 March 2013, 21,492,589 shares (last year 19,651,115) were outstanding under the scheme.

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, 1,181,637 shares (last year 2,366,847) have been awarded under the plan in relation to the annual bonus. The fair value of the shares awarded was 325.1p (last year 378.4p). As at 30 March 2013, 6,576,038 shares (last year 6,396,018) 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, 1,257,044 shares (last year 1,356,046) have been awarded under the plan. The weighted average fair value of the shares awarded was 371.0p (last year 356.9p). As at 30 March 2013, 3,177,564 shares (last year 2,364,183) were outstanding under the scheme.

13 Share-based payments continued

E. 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, 147,557 (last year 97,270) options were granted, at a fair value of 73.8p (last year 67.3p).

F. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the Trust) holds 8,046,847 shares (last year 10,621,823) with a book value of £26.9m (last year £34.4m) and a market value of £31.4m (last year £40.2m). 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. Dividends are waived on all of these plans.

***Nil cost options**

For the purposes of calculating the number of shares awarded, the share price used is the average of the mid-market price for the five consecutive dealing days preceding the grant date.

Notes to the financial statements continued

14 Intangible assets

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
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
Year ended 31 March 2012					
Opening net book value	127.6	45.4	296.5	58.2	527.7
Additions	–	32.4	72.9	52.9	158.2
Transfers	–	–	37.0	(37.0)	–
Disposals	–	–	(1.0)	–	(1.0)
Impairment	(34.4)	–	–	–	(34.4)
Amortisation charge	–	(5.3)	(60.0)	–	(65.3)
Exchange difference	(0.6)	–	(0.3)	–	(0.9)
Closing net book value	92.6	72.5	345.1	74.1	584.3
At 31 March 2012					
Cost	127.0	112.4	535.4	74.1	848.9
Accumulated amortisation and impairment	(34.4)	(39.9)	(190.3)	–	(264.6)
Net book value	92.6	72.5	345.1	74.1	584.3
Year ended 30 March 2013					
Opening net book value	**92.6**	**72.5**	**345.1**	**74.1**	**584.3**
Additions	**–**	**–**	**50.2**	**136.9**	**187.1**
Transfers	**–**	**–**	**27.8**	**(27.8)**	**–**
Amortisation charge	**–**	**(5.3)**	**(71.1)**	**–**	**(76.4)**
Closing net book value	**92.6**	**67.2**	**352.0**	**183.2**	**695.0**
At 30 March 2013					
Cost	**127.0**	**112.4**	**613.4**	**183.2**	**1,036.0**
Accumulated amortisation and impairment	**(34.4)**	**(45.2)**	**(261.4)**	**–**	**(341.0)**
Net book value	**92.6**	**67.2**	**352.0**	**183.2**	**695.0**

Goodwill relates to the following business units:

	per una £m	**Marks and Spencer Czech Republic a.s. £m**	**Supreme Tradelinks Private Limited £m**	**Total £m**
Net book value at 31 March 2012	**69.5**	**15.4**	**7.7**	**92.6**
Exchange difference	**–**	**–**	**–**	**–**
Net book value at 30 March 2013	**69.5**	**15.4**	**7.7**	**92.6**

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 pre-tax 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 10.7% (last year 10.6%), Marks and Spencer Czech Republic a.s. 12.2% (last year 12.3%) and Supreme Tradelinks Private Limited 17.4% (last year 12.7%).

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 for Marks and Spencer Czech Republic a.s. at a growth rate of 1.5% (last year 1.5%) and Supreme Tradelinks Private Limited at a growth rate of 6% (last year 1.5%). To stress test, nil growth has been assumed for per una. These rates do not exceed the long-term average growth rate for the Group's retail businesses.

If a zero per cent growth rate is assumed or the discount rate is increased by a pre-tax rate of 3%, per una, Marks and Spencer Czech Republic a.s. and Supreme Tradelinks Private Limited goodwill would not be impaired.

Last year, due to the economic environment in Greece and neighbouring countries, the Marks and Spencer Marinopoulos B.V. goodwill was impaired in full giving rise to a charge of £34.4m.

Brands consist of the per una brand cost of £80.0m and the M&S Mode brands of £32.4m. The per una brand is a definite life intangible asset and is amortised on a straight line basis over a period of 15 years and is only assessed for impairment where such indicators exist. The M&S Mode brands have been attributed an indefinite life as they give the Group the future right to use the 'M&S' brand across Europe. This is consistent with the Group's expansion plans in Europe and existing M&S brand recognition from its current presence. Similar to goodwill, the M&S Mode brands are assessed for impairment annually based on their value in use. The M&S Mode brands have been allocated for impairment testing across the European business. No brand impairment charge has been recognised in 2012/13.

15 Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
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
Year ended 31 March 2012				
Opening net book value	2,486.0	1,975.3	200.9	4,662.2
Additions	17.1	279.5	282.7	579.3
Transfers	25.3	127.9	(153.2)	–
Disposals	(0.8)	(6.8)	–	(7.6)
Asset write-offs	(13.0)	(10.4)	–	(23.4)
Depreciation charge	(16.4)	(388.4)	–	(404.8)
Exchange difference	(9.4)	(6.1)	(0.3)	(15.8)
Closing net book value	2,488.8	1,971.0	330.1	4,789.9
At 31 March 2012				
Cost	2,759.4	5,612.9	330.1	8,702.4
Accumulated depreciation	(270.6)	(3,641.9)	–	(3,912.5)
Net book value	2,488.8	1,971.0	330.1	4,789.9
Year ended 30 March 2013				
Opening net book value	**2,488.8**	**1,971.0**	**330.1**	**4,789.9**
Additions	**17.3**	**430.3**	**186.6**	**634.2**
Transfers	**16.1**	**189.8**	**(205.9)**	**–**
Disposals	**(0.4)**	**(4.6)**	**–**	**(5.0)**
Asset write-offs	**(0.6)**	**(16.2)**	**–**	**(16.8)**
Depreciation charge	**(11.7)**	**(362.4)**	**–**	**(374.1)**
Exchange difference	**2.1**	**1.8**	**1.6**	**5.5**
Closing net book value	**2,511.6**	**2,209.7**	**312.4**	**5,033.7**
At 30 March 2013				
Cost	**2,817.1**	**6,198.1**	**312.4**	**9,327.6**
Accumulated depreciation	**(305.5)**	**(3,988.4)**	**–**	**(4,293.9)**
Net book value	**2,511.6**	**2,209.7**	**312.4**	**5,033.7**

The net book value above includes land and buildings of £41.0m (last year £41.1m) and equipment of £11.1m (last year £20.7m) where the Group is a lessee under a finance lease.

Additions to property, plant and equipment during the year amounting to £nil (last year £nil) were financed by new finance leases.

Notes to the financial statements continued

16 Other financial assets

	2013 £m	2012 £m
Non-current		
Unlisted investments	**3.0**	3.0
Current		
Short-term investments[1]	**10.7**	254.4
Unlisted investments	**6.2**	6.1
	16.9	260.5

1. Includes £0.3m (last year £179.4m) and £0.3m (last year £49.2m) 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.

17 Trade and other receivables

	2013 £m	2012 £m
Non-current		
Other receivables	**30.4**	33.8
Prepayments and accrued income	**235.0**	236.4
	265.4	270.2
Current		
Trade receivables	**113.7**	115.8
Less: Provision for impairment of receivables	**(5.4)**	(1.2)
Trade receivables – net	**108.3**	114.6
Other receivables	**29.1**	23.9
Prepayments and accrued income	**107.6**	114.5
	245.0	253.0

Trade receivables that were past due but not impaired amounted to £1.8m (last year £1.3m) and are mainly sterling denominated. The directors consider that the carrying amount of trade and other receivables approximates their fair value.

18 Cash and cash equivalents

Cash and cash equivalents are £193.1m (last year £196.1m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.03% (last year 0.36%). These deposits have an average maturity of three days (last year four days).

19 Trade and other payables

	2013 £m	2012 £m
Current		
Trade and other payables	**972.7**	959.5
Social security and other taxes	**56.4**	71.5
Accruals and deferred income	**474.7**	418.1
	1,503.8	1,449.1
Non-current		
Other payables	**292.1**	280.8

20 Borrowings and other financial liabilities

	2013 £m	2012 £m
Current		
Bank loans and overdrafts[1]	**151.8**	38.4
5.875% £267m medium-term notes 2012[2]	**–**	280.6
5.625% £400m medium term notes 2014[2]	**400.2**	–
Finance lease liabilities	**6.7**	8.7
	558.7	327.7
Non-current		
Bank loans	**0.3**	0.3
5.625% £400m medium term notes 2014[2]	**–**	399.9
6.250% US$500m medium-term notes 2017[3]	**335.7**	317.8
6.125% £400m medium-term notes 2019[2]	**436.9**	428.5
6.125% £300m medium-term notes 2021[2]	**301.6**	301.6
4.75% £400m medium term notes 2025[2]	**401.4**	–
7.125% US$300m medium-term notes 2037[3]	**200.7**	189.9
6.875% £250m puttable callable reset medium-term notes 2037[2]	**–**	253.3
Finance lease liabilities	**50.7**	56.8
	1,727.3	1,948.1
Total	**2,286.0**	2,275.8

1. Bank loans and overdrafts includes a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see note 28).
2. These notes are issued under Marks and Spencer plc's £3bn European medium-term note programme and all pay interest annually.
3. Interest on these bonds is payable semi-annually.

On 12 December 2012, the Group issued £400m of 12.5 year medium-term notes at a coupon rate of 4.75%.

In December 2007, the Group issued £250m of 6.875% 30 year Puttable Callable Reset medium-term notes (PCR notes). These included a coupon rate reset after five years based on a fixed underlying 25 year interest rate. On this basis the rate was reset at 9%. In light of continued low long-term market interest rates and the successful bond issuance in December 2012, the Group bought back and cancelled these bonds in January 2013 for £330.0m. This resulted in a one-off finance charge of £75.3m representing the difference between the cost of the buy back and the carrying value of the PCR notes, offset by associated unamortised bond costs and fees (see note 5).

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 five years (last year five 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.

21 Financial instruments

Treasury policy

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.

The Group treasury function 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.

Notes to the financial statements continued

21 Financial instruments continued

Financial risk management

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:

(a) Liquidity/funding risk

The risk that the Group could be unable to settle or meet its obligations at a reasonable price as they fall due:

- 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 £1.325bn set to mature on 29 September 2017. 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 £81m (last year £nil) 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 £1.5bn (last year £1.6bn) was in issuance as at the balance sheet date.

The 5.875% £267m bond was repaid in May 2012. A new 4.75% £400m bond was issued under the programme in December 2012 maturing in June 2025.

The contractual maturity of the Group's non-derivative financial liabilities (excluding trade and other payables (see note 19)) and derivatives is as follows:

	Bank loans and overdrafts £m	Syndicated bank facility £m	Medium-term notes £m	Finance lease liabilities £m	Partnership liability to the Marks & Spencer UK pension scheme £m	Total borrowings and other financial liabilities £m	Derivative assets £m	Derivative liabilities £m	Total £m
Timing of cash flows									
Within one year	(38.4)	–	(398.5)	(11.8)	(71.9)	(520.6)	1,540.1	(1,529.4)	10.7
Between one and two years	(0.3)	–	(517.1)	(8.8)	–	(526.2)	163.6	(161.9)	1.7
Between two and five years	–	–	(283.8)	(9.2)	–	(293.0)	110.5	(103.3)	7.2
More than five years	–	–	(2,310.9)	(192.1)	–	(2,503.0)	804.6	(841.8)	(37.2)
	(38.7)	–	(3,510.3)	(221.9)	(71.9)	(3,842.8)	2,618.8	(2,636.4)	(17.6)
Effect of discounting and foreign exchange	–	–	1,338.7	156.4	–	1,495.1			
At 31 March 2012	(38.7)	–	(2,171.6)	(65.5)	(71.9)	(2,347.7)			
Timing of cash flows									
Within one year	**(70.8)**	**(81.0)**	**(509.6)**	**(9.3)**	**(71.9)**	**(742.6)**	**1,787.4**	**(1,751.9)**	**35.5**
Between one and two years	**(0.3)**	**–**	**(96.6)**	**(4.3)**	**(71.9)**	**(173.1)**	**201.7**	**(192.0)**	**9.7**
Between two and five years	**–**	**–**	**(619.5)**	**(7.3)**	**(215.5)**	**(842.3)**	**449.3**	**(431.1)**	**18.2**
More than five years	**–**	**–**	**(1,854.3)**	**(188.6)**	**(359.2)**	**(2,402.1)**	**485.6**	**(468.1)**	**17.5**
	(71.1)	**(81.0)**	**(3,080.0)**	**(209.5)**	**(718.5)**	**(4,160.1)**	**2,924.0**	**(2,843.1)**	**80.9**
Effect of discounting and foreign exchange	**–**	**–**	**1,003.5**	**152.1**	**95.9**	**1,251.5**			
At 30 March 2013	**(71.1)**	**(81.0)**	**(2,076.5)**	**(57.4)**	**(622.6)**	**(2,908.6)**			

The present value of finance lease liabilities is as follows:

	2013 £m	2012 £m
Within one year	**(6.7)**	(8.7)
Later than one year and not later than five years	**(9.1)**	(8.7)
Later than five years	**(41.6)**	(48.1)
Total	**(57.4)**	(65.5)

(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-/A3 or better, assigned by Moody's and Standard & Poor's respectively, unless approved by exception by the CFO. 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.

21 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[3]							
	AAAm £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	Total
Short-term investments[1]	198.5	–	2.0	42.8	27.1	20.0	–	290.4
Derivative assets[2]	–	–	1.9	9.8	–	18.2	7.6	37.5
At 31 March 2012	198.5	–	3.9	52.6	27.1	38.2	7.6	327.9

	AAAm £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	Total
Short-term investments[1]	**0.3**	**–**	**–**	**9.5**	**11.6**	**13.2**	**–**	**34.6**
Derivative assets[2]	**–**	**–**	**–**	**16.9**	**6.4**	**42.4**	**16.1**	**81.8**
At 30 March 2013	**0.3**	**–**	**–**	**26.4**	**18.0**	**55.6**	**16.1**	**116.4**

1. Includes cash on deposit and money market funds held by Marks and Spencer Scottish Limited Partnership, Marks and Spencer plc and M.S. General Insurance LP.
2. Excludes the embedded derivative within the lease host contract.
3. 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 £114m (last year £115m), other receivables £60m (last year £58m), cash and cash equivalents £193m (last year £196m) and derivatives £108m (last year £111m).

(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 for 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 £1,342m (last year £1,221m) with a weighted average maturity date of seven months (last year seven months).

Gains and losses in equity on forward foreign exchange contracts as at 30 March 2013 will be released to the income statement at various dates over the following 15 months (last year 15 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 €200m (last year €242m) and HK$484m (last year HK$291m) of derivatives was hedging overseas net assets.

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance results in an overall £nil impact on the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £307m (last year £187m).

After taking into account the hedging derivatives entered into by the Group, the currency and interest rate exposure of the Group's financial liabilities excluding short-term payables and the liability to the Marks & Spencer UK Pension Scheme (which has no currency or interest rate exposure) and the Marks and Spencer Czech Republic a.s. put option, is set out below:

			2013			2012
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**1,929.9**	**318.1**	**2,248.0**	2,030.4	205.2	2,235.6
Euro	**3.9**	**6.7**	**10.6**	6.8	5.1	11.9
Other	**–**	**27.4**	**27.4**	–	28.3	28.3
	1,933.8	**352.2**	**2,286.0**	2,037.2	238.6	2,275.8

Notes to the financial statements continued

21 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 six months.

As at the balance sheet date and excluding finance leases, the fixed rate sterling borrowings are at an average rate of 5.6% (last year 5.8%) and the weighted average time for which the rate is fixed is eight years (last year nine years).

(d) Interest rate risk

The Group is exposed to interest rate risk in relation to sterling, US dollar and euro 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 £1,933.8m (last year £2,037.2m) representing the public bond issues and finance leases, amounting to 85% (last year 90%) of the Group's gross borrowings.

The effective interest rates at the balance sheet date were as follows:

	2013 %	2012 %
Committed and uncommitted borrowings	**1.2**	0.5
Medium-term notes	**5.6**	5.8
Finance leases	**4.3**	4.5

Derivative financial instruments

		2013		2012	
		Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Current					
Options	– held for trading	**–**	**–**	53.6	(53.6)
Forward foreign exchange contracts	– cash flow hedges	**34.0**	**(12.8)**	13.3	(5.1)
	– held for trading	**3.6**	**(0.9)**	0.1	(1.3)
	– net investment hedges	**4.9**	**–**	–	(0.5)
		42.5	**(13.7)**	67.0	(60.5)
Non-current					
Cross currency swaps	– cash flow hedges	**3.2**	**(12.4)**	–	(26.5)
Forward foreign exchange contracts	– cash flow hedges	**3.8**	**(0.7)**	0.1	(0.7)
Interest rate swaps	– fair value hedge	**32.4**	**–**	24.0	–
Embedded derivative (see note 5)		**25.9**	**–**	20.1	–
		65.3	**(13.1)**	44.2	(27.2)

Last year, the amounts reported as options held for trading in derivatives assets and liabilities represented 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. In January 2013 the Group bought back and cancelled these notes. The Group holds a number of interest rate swaps to re-designate its sterling fixed debt to floating debt. These are reported as fair value hedges. The ineffective portion recognised in the profit or loss that arises from fair value hedges amounts to £nil (last year £0.2m loss) as the loss on the hedged item was £8.0m (last year £23.6m loss) and the gain on the hedging instrument was £8.0m (last year £23.8m gain).The Group also holds a number of cross currency swaps to re-designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges.

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 the Group's financial instruments. The Directors consider that a 2% +/- (last year 2%) movement in interest rates and a 20% +/- (last year 20%) weakening in sterling represents a reasonable possible change. 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 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 re-translation 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.

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21 Financial instruments continued

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 31 March 2012				
Impact on income statement: gain	1.5	0.8	–	–
Impact on other comprehensive income: (loss)/gain	(5.3)	3.0	70.2	(46.8)
At 30 March 2013				
Impact on income statement: gain/(loss)	**3.7**	**(5.6)**	**–**	**–**
Impact on other comprehensive income: (loss)/gain	**(6.9)**	**3.5**	**100.8**	**(67.2)**

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:

				2013				2012
	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	**–**	**3.6**	**–**	**3.6**	–	53.7	–	53.7
Derivatives used for hedging	**–**	**78.3**	**–**	**78.3**	–	37.4	–	37.4
Embedded derivatives (note 5)	**–**	**–**	**25.9**	**25.9**	–	–	20.1	20.1
Available-for-sale financial assets								
– Equity securities	**–**	**–**	**3.0**	**3.0**	–	–	3.0	3.0
Short term investments	**–**	**10.7**	**–**	**10.7**		254.4		254.4
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
– Trading derivatives	**–**	**(0.9)**	**–**	**(0.9)**	–	(54.9)	–	(54.9)
Derivative used for hedging	**–**	**(25.9)**	**–**	**(25.9)**	–	(32.8)	–	(32.8)

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.

The following table presents the changes in Level 3 instruments:

	2013 £m	2012 £m
Opening balance	**23.1**	8.7
Gains recognised in the income statement	**5.8**	14.4
Closing balance	**28.9**	23.1

The gains recognised in the income statement relate to the valuation of the embedded derivative in a lease contract. A discount unwind on the put option over a non-controlling interest of £nil (last year £1.0m) has been recorded within underlying interest charges, with the fair value movement of the put option of £nil (last year £15.6m) and the fair value movement of the embedded derivative of £5.8m (last year £0.2m) 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 and the Partnership liability to the Marks & Spencer UK Pension scheme, 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 £2,076.5m (last year £2,171.6m); the fair value of this debt was £2,196.6m (last year £2,121.7m). The carrying value of the Partnership liability to the Marks & Spencer UK Pension scheme is £622.6m and the fair value of this liability is £606.0m.

Notes to the financial statements continued

21 Financial instruments continued

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 27) 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 eight years (last year nine 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.

22 Provisions

	2013 £m	2012 £m
At start of year	**32.4**	44.7
Provided in the year	**13.9**	7.8
Released in the year	**(1.3)**	(3.4)
Utilised during the year	**(9.8)**	(16.5)
Exchange differences	**–**	(0.2)
At end of year	**35.2**	32.4
Analysis of provisions:		
Current	**19.2**	8.4
Non-current	**16.0**	24.0
Total provisions	**35.2**	32.4

The provisions primarily comprise of one-off costs related to the strategic restructure in the UK in 2008/09, including onerous leases and costs in relation to the current restructure of the logistics distribution network.

The current element of the provision primarily relates to onerous leases and redundancies. The non-current element of the provision relates to store closures, primarily onerous leases, and is expected to be utilised over a period of ten years.

23 Deferred tax

Deferred tax is provided under the balance sheet liability method using a tax rate of 23% (last year 24%) for UK differences and local tax rates for overseas differences. Details of the changes to the UK corporation tax rate and the impact on the Group are described in note 7.

The movements in deferred tax assets and liabilities (after offsetting balances within the same jurisdiction as permitted by IAS 12 – 'Income Taxes') during the year are shown below.

Deferred tax (liabilities)/assets

	Non-current 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 3 April 2011	(63.8)	(104.8)	(27.8)	10.0	(186.4)	(10.1)	(196.5)
Credited/(charged) to the income statement	5.6	4.2	4.4	(2.9)	11.3	(1.5)	9.8
(Charged)/credited to equity	–	–	(5.1)	(0.6)	(5.7)	(3.3)	(9.0)
At 31 March 2012	(58.2)	(100.6)	(28.5)	6.5	(180.8)	(14.9)	(195.7)
At 1 April 2012	**(58.2)**	**(100.6)**	**(28.5)**	**6.5**	**(180.8)**	**(14.9)**	**(195.7)**
Credited/(charged) to the income statement	**5.7**	**10.0**	**(6.5)**	**0.7**	**9.9**	**1.3**	**11.2**
(Charged)/credited to equity	**–**	**–**	**(51.7)**	**(0.7)**	**(52.4)**	**6.2**	**(46.2)**
At 30 March 2013	**(52.5)**	**(90.6)**	**(86.7)**	**6.5**	**(223.3)**	**(7.4)**	**(230.7)**

The deferred tax liability on non-current assets is stated net of the benefit of capital losses with a tax value of £62.0m (last year £71.4m). No benefit has been recognised in respect of unexpired trading losses carried forward in overseas jurisdictions with a tax value of £30.8m (last year £26.8m).

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 undistributed earnings of overseas subsidiaries and joint ventures, as no material liability is expected to arise on distribution of these earnings under applicable tax legislation.

24 Ordinary share capital

	2013 Shares	2013 £m	2012 Shares	2012 £m
Issued and fully paid ordinary shares of 25p each				
At start of year	**1,605,507,102**	**401.4**	1,584,863,882	396.2
Shares issued on exercise of share options	**8,381,090**	**2.1**	20,643,220	5.2
At end of year	**1,613,888,192**	**403.5**	1,605,507,102	401.4

Issue of new shares
8,381,090 (last year 20,643,220) ordinary shares having a nominal value of £2.1m (last year £5.2m) were allotted during the year under the terms of the Company's schemes which are described in note 13. The aggregate consideration received was £22.9m (last year £44.3m).

25 Contingencies and commitments
A. Capital commitments

	2013 £m	2012 £m
Commitments in respect of properties in the course of construction	**9.5**	71.4

In respect of its interest in a joint venture, the Group is committed to incur capital expenditure of £nil (last year £nil).

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 the warehouse operators 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.

	2013 £m	2012 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	**276.9**	257.8
Later than one year and not later than five years	**1,064.5**	997.4
Later than five years and not later than ten years	**1,053.7**	1,029.5
Later than ten years and not later than 15 years	**695.1**	772.7
Later than 15 years and not later than 20 years	**366.8**	385.1
Later than 20 years and not later than 25 years	**247.0**	259.3
Later than 25 years	**1,143.0**	1,210.1
Total	**4,847.0**	4,911.9

The total future sublease payments to be received are £50.6m (last year £63.3m).

26 Analysis of cash flows given in the statement of cash flows

Cash flows from operating activities

	2013 £m	2012 £m
Profit on ordinary activities after taxation	**458.0**	489.6
Income tax expense	**106.3**	168.4
Finance costs	**218.2**	136.8
Finance income	**(26.5)**	(48.3)
Operating profit	**756.0**	746.5
Increase in inventories	**(91.2)**	(0.1)
Decrease/(increase) in receivables	**9.5**	(17.1)
Payments to acquire leasehold properties	**–**	(1.2)
Increase in payables	**77.0**	103.4
Non-underlying operating cash outflows	**(21.4)**	(22.9)
Depreciation, amortisation and asset write-offs	**467.4**	479.7
Share-based payments	**25.8**	32.5
Pension costs charged against operating profit	**68.4**	57.7
Cash contributions to pension schemes	**(70.9)**	(89.9)
Non-underlying operating profit items (see note 5)	**25.6**	63.5
Cash generated from operations	**1,246.2**	1,352.1

Non-underlying operating cash outflows relate to the utilisation of the provisions for UK restructuring, strategic programme costs and the reduction in M&S Bank income for the impact of the financial product mis-selling provision.

Notes to the financial statements continued

27 Analysis of net debt

A. Reconciliation of movement in net debt

	At 1 April 2012 £m	Cash flow £m	Exchange and other non-cash movements £m	**At 30 March 2013 £m**
Net cash				
Bank loans, overdrafts and syndicated bank facility (note 20)	(38.7)	(113.4)	–	**(152.1)**
Less: amounts treated as financing (see below)	38.4	81.3	–	**119.7**
	(0.3)	(32.1)	–	**(32.4)**
Cash and cash equivalents (note 18)	196.1	(3.9)	0.9	**193.1**
Net cash per statement of cash flows	195.8	(36.0)	0.9	**160.7**
Current financial assets (see note 16)	260.5	(243.7)	0.1	**16.9**
Debt financing				
Bank loans and overdrafts treated as financing (see above)	(38.4)	(81.3)	–	**(119.7)**
Medium-term notes	(2,137.6)	131.4	(2.6)	**(2,008.8)**
Finance lease liabilities (note 20)	(65.5)	11.0	(2.9)	**(57.4)**
Partnership liability to the Marks & Spencer UK Pension Scheme (note 12)	(71.9)	71.9	(606.0)	**(606.0)**
Debt financing	(2,313.4)	133.0	(611.5)	**(2,791.9)**
Net debt	(1,857.1)	(146.7)	(610.4)	**(2,614.3)**

B. Reconciliation of net debt to statement of financial position

	2013 £m	2012 £m
Statement of financial position and related notes		
Cash and cash equivalents (note 18)	**193.1**	196.1
Current financial assets (note 16)	**16.9**	260.5
Bank loans and overdrafts (note 20)	**(152.1)**	(38.7)
Medium-term notes – net of hedging derivatives	**(2,040.2)**	(2,181.8)
Finance lease liabilities (note 20)	**(57.4)**	(65.5)
Partnership liability to the Marks & Spencer UK Pension Scheme (note 12)	**(622.6)**	(71.9)
	(2,662.3)	(1,901.3)
Interest payable included within related borrowing	**48.0**	44.2
Total net debt	**(2,614.3)**	(1,857.1)

28 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 2013. 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 30 March 2013, £21.7m (last year £25.4m) was drawn down on this facility. Interest was charged on the loan at 1.1% above 3-month LIBOR. The Group has entered into a rental agreement with the joint venture and £4.6m (last year £4.5m) of rental charges were incurred. There was no outstanding balance at March 2013.

28 Related party transactions continued

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.

E. Key management compensation

	2013 £m	2012 £m
Salaries and short-term benefits	9.2	8.8
Post-employment benefits	–	0.1
Share-based payments	2.6	6.0
Total	**11.8**	14.9

Key management comprises 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, a former executive director of the Group. These transactions amounted to £6.5m during the period to 1 October 2012, the date of Kate Bostock's resignation (last year £12.7m). 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 £2.4m during the year (last year £1.9m) with an outstanding trade payable of £0.2m at 30 March 2013 (last year £0.5m).

Company statement of financial position

	Notes	As at 30 March 2013 £m	As at 31 March 2012 £m
Assets			
Non-current assets			
Investments in subsidiary undertakings	C5	**9,207.8**	9,194.6
Total assets		**9,207.8**	9,194.6
Liabilities			
Current liabilities			
Amounts owed to subsidiary undertakings		**2,516.8**	2,541.7
Total liabilities		**2,516.8**	2,541.7
Net assets		**6,691.0**	6,652.9
Equity			
Ordinary share capital		**403.5**	401.4
Share premium account		**315.1**	294.3
Capital redemption reserve		**2,202.6**	2,202.6
Merger reserve		**1,397.3**	1,397.3
Retained earnings		**2,372.5**	2,357.3
Total equity		**6,691.0**	6,652.9

The financial statements were approved by the Board and authorised for issue on 20 May 2013. The financial statements also comprise the notes on pages 111 and 112.

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 3 April 2011	396.2	255.2	2,202.6	1,397.3	2,336.7	6,588.0
Profit for the year	–	–	–	–	273.6	273.6
Dividends	–	–	–	–	(267.8)	(267.8)
Capital contribution for share-based payments	–	–	–	–	14.8	14.8
Shares issued on the exercise of employee share options	5.2	39.1	–	–	–	44.3
At 31 March 2012	401.4	294.3	2,202.6	1,397.3	2,357.3	6,652.9
At 1 April 2012	**401.4**	**294.3**	**2,202.6**	**1,397.3**	**2,357.3**	**6,652.9**
Profit for the year	**–**	**–**	**–**	**–**	**273.3**	**273.3**
Dividends	**–**	**–**	**–**	**–**	**(271.3)**	**(271.3)**
Capital contribution for share-based payments	**–**	**–**	**–**	**–**	**13.2**	**13.2**
Shares issued on the exercise of employee share options	**2.1**	**20.8**	**–**	**–**	**–**	**22.9**
At 30 March 2013	**403.5**	**315.1**	**2,202.6**	**1,397.3**	**2,372.5**	**6,691.0**

Company statement of cash flows

	52 weeks ended 30 March 2013 £m	52 weeks ended 31 March 2012 £m
Cash flows from investing activities		
Dividends received	**273.3**	273.6
Net cash generated from investing activities	**273.3**	273.6
Cash flows from financing activities		
Shares issued on exercise of employee share options	**22.9**	44.3
Repayment of intercompany loan	**(24.9)**	(50.1)
Equity dividends paid	**(271.3)**	(267.8)
Net cash used in financing activities	**(273.3)**	(273.6)
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 21 of the Group financial statements.

In accordance with the exemption allowed by Section 408(3) 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 £968,000 (last year £932,000). 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(4)(a) of the Companies Act 2006.

C4 Dividends

	2013 per share	2012 per share	**2013 £m**	2012 £m
Dividends on equity ordinary shares				
Paid final dividend	**10.8p**	10.8p	**172.3**	170.2
Paid interim dividend	**6.2p**	6.2p	**99.0**	97.6
	17.0p	17.0p	**271.3**	267.8

In addition, the directors have proposed a final dividend in respect of the year ended 30 March 2013 of 10.8p per share amounting to a dividend of £173.5m. It will be paid on 12 July 2013 to shareholders who are on the Register of Members on 31 May 2013. 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 subsidiary undertakings

	2013 £m	2012 £m
Beginning of the year	**9,194.6**	9,179.8
Additional investment in subsidiary undertakings relating to share-based payments	**13.2**	14.8
End of year	**9,207.8**	9,194.6

Shares in subsidiary undertakings represent the Company's investment in Marks and Spencer plc.

Company notes to the financial statements continued

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.

			Proportion of voting rights and shares held by:	
	Principal activity	Country of incorporation and operation	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	–	100%
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 & Spencer Simply Foods Limited	Retailing	Great Britain	–	100%
Marks and Spencer Marinopoulos Greece SA	Retailing	Greece	–	80%
M.S. General Insurance L.P.	Financial services	Guernsey	–	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 £273.3m (last year £273.6m) and decreased its loan from Marks and Spencer plc by £24.9m (last year £50.1m). The outstanding balance was £2,516.8m (last year £2,541.7m) and is non-interest bearing. There were no other related party transactions.

Group financial record

	2013 52 weeks £m	2012 52 weeks £m	2011 52 weeks £m	2010 53 weeks £m	2009 52 weeks £m
Income statement					
Revenue[1]					
UK	**8,951.4**	8,868.2	8,733.0	8,567.9	8,164.3
International	**1,075.4**	1,066.1	1,007.3	968.7	897.8
	10,026.8	9,934.3	9,740.3	9,536.6	9,062.1
Operating profit[1]					
UK	**635.8**	658.0	679.0	701.1	755.0
International	**120.2**	88.5	157.9	150.9	115.7
Total operating profit	**756.0**	746.5	836.9	852.0	870.7
Net interest payable	**(212.9)**	(114.1)	(93.9)	(160.1)	(199.9)
Pension finance income	**21.2**	25.6	37.6	10.8	35.4
Profit on ordinary activities before taxation – continuing operations	**564.3**	658.0	780.6	702.7	706.2
Analysed between:					
Underlying profit before tax	**665.2**	705.9	714.3	694.6	604.4
Adjustments to reported profit	**(100.9)**	(47.9)	66.3	8.1	101.8
Income tax expense	**(106.3)**	(168.4)	(182.0)	(179.7)	(199.4)
Profit after taxation	**458.0**	489.6	598.6	523.0	506.8

		2013 52 weeks	2012 52 weeks	2011 52 weeks	2010 53 weeks	2009 52 weeks
Basic earnings per share[1]	Basic earnings/ Weighted average ordinary shares in issue	**29.2p**	32.5p	38.8p	33.5p	32.3p
Underlying basic earnings per share[1]	Underlying basic earnings/ Weighted average ordinary shares in issue	**32.7p**	34.9p	34.8p	33.0p	28.0p
Dividend per share declared in respect of the year		**17.0p**	17.0p	17.0p	15.0p	17.8p
Dividend cover	Underlying earnings per share/ Dividend per share	**1.9p**	2.1x	2.0x	2.2x	1.6x
Retail fixed charge cover	Operating profit before depreciation and operating lease charges/Fixed charges	**3.5x**	3.9x	4.0x	4.0x	3.5x
Statement of financial position						
Net assets (£m)		**2,486.4**	2,778.8	2,677.4	2,185.9	2,100.6
Net debt[2] (£m)		**2,614.3**	1,857.1	1,900.9	2,068.4	2,490.8
Capital expenditure (£m)		**821.3**	737.5	491.5	397.1	653.3
Stores and space						
UK stores		**766**	731	703	690	668
UK selling space (m sq ft)		**16.4**	16.0	15.6	15.4	14.9
International stores		**418**	387	361	320	296
International selling space (m sq ft)		**5.4**	4.7	4.2	3.6	3.1
Staffing (full-time equivalent)						
UK		**51,835**	51,938	49,922	48,722	50,614
International		**5,683**	5,116	4,753	4,272	3,539

1. Based on continuing operations.
2. Excludes accrued interest.

Shareholder information

Analysis of share register

Ordinary shares

As at 30 March 2013, there were 195,544 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	98,889	50.57%	19,338,260	1.20%
501 – 1,000	38,611	19.75%	28,865,092	1.79%
1,001 – 2,000	29,835	15.26%	42,861,153	2.66%
2,001 – 5,000	20,015	10.23%	61,545,081	3.81%
5,001 – 10,000	5,201	2.66%	36,001,930	2.23%
10,001 – 100,000	2,427	1.24%	54,969,725	3.41%
100,001 – 1,000,000	385	0.20%	126,882,718	7.86%
1,000,001 – HIGHEST	181	0.09%	1,243,424,233	77.04%
Total	195,544	100%	1,613,888,192	100%

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	187,711	95.99%	271,377,253	16.82%
Institutional and Corporate	7,833	4.01%	1,342,510,939	83.18%
Total	195,544	100%	1,613,888,192	100%

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 on the opposite page. 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 account to ensure efficient payment and cleared funds on the payment date. Those selecting this payment method receive an annual consolidated tax voucher in January, showing both 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 telephone. However, for holdings greater than 1,500 your instruction will need to be in writing, quoting your full name, shareholder reference number (if known), 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 corporate 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 the donation of small, unwanted shareholdings to good causes. You can find out more by visiting sharegift.org or by calling +44 (0)207 930 3737.

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.

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.

AGM 2013

This year's AGM will be held at Wembley Stadium, Wembley, London HA9 0WS on Tuesday 9 July 2013. The meeting will start at 11am and registration will be available from 9.30am.

Shareholder security

An increasing number shareholders have been contacting us to report unsolicited and suspicious phone calls that they have received from 'brokers' offering to buy their shares at a price far in excess of their market value. We believe this may be a scam, commonly referred to as a 'boiler room'. The callers obtain your details from publicly available sources of information, including the Company Share Register, and are extremely persistent and persuasive.

Shareholders are cautioned to be very wary of any unsolicited advice, offers to buy shares at a discount, sell your shares at a premium or requests to complete confidentiality agreements with the callers. Remember, if it sounds too good to be true, it probably is!

More detailed information and guidance is available on the 'Investors' section of our corporate website. An overview of common current scams is available on the Action Fraud website www.actionfraud.police.uk

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

29 May 2013	Ex-dividend date – Final dividend
31 May 2013	Record date to be eligible for the final dividend
9 July 2013*	Results – Quarter 1 Interim Management Statement†
9 July 2013	Annual General Meeting (11am)
12 July 2013	Final dividend payment date for the year to 30 March 2013
November 2013*	Results – Half Year†
13 November 2013*	Ex-dividend date – Interim dividend
15 November 2013*	Record date to be eligible for the interim dividend
January 2014*	Results – Quarter 3 Interim Management Statement†
10 January 2014*	Interim dividend payment date

† Those registered for electronic communication or news alerts at marksandspencer.com/thecompany will receive notification by email when this is available.

* provisional dates.

How to get in touch

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Online: help.shareview.co.uk
From here, you will be able to securely email Equiniti with your enquiry.

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

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