Only at

YOUR M&S

Annual report and financial statements 2014

Overview of the year

At a glance

Financial overview

Group revenue
£10.3bn
↑ 2.7%*

Underlying Group profit before tax
£622.9m
↓ 3.9%

Group profit before tax
£580.4m
↑ 6.1%

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

Underlying Group earnings per share
32.2p
↑ 0.9%

Group earnings per share
32.5p
↑ 14.8%

UK

Through our 798 UK stores and our fast-growing e-commerce business, we sell high-quality, great value products to 34 million customers. Our UK business is split between Food (55% of our turnover) and General Merchandise (45%). We are market leader in Womenswear, Lingerie and Menswear.

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General Merchandise revenue
£4.1bn
→ level

Food revenue
£5.1bn
↑ 4.2%

Number of UK stores
798
↑ 32 net new stores

International

M&S's international reach continues to grow and we now operate in 54 territories across Europe, Asia and the Middle East. We are also expanding our international presence with the roll-out of country-specific websites.

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International revenue
£1.2bn
↑ 6.2%*

International stores
455
↑ 37 net new stores

Territories
54
↑ 3 new markets

About our reporting
Last September the Financial Reporting Council implemented changes regarding the information that listed companies need to include in an Annual Report. The Strategic Report replaces the Business Review and requires strong linkage between objectives, strategy and performance.

Risk integration
Under the recent changes, businesses must include details of the risks they face throughout the Strategic Report, rather than just in one place. Through this document we have highlighted our principal risks and how we mitigate them.

Integrated Reporting ambitions
As members of the International Integrated Reporting Council pilot, we have committed to reporting the long term value created by sustainable business. Our ambition is to have a report that fully meets the principles of the IIRC framework by 2016.

Plan A integration
We have also highlighted how Plan A is affecting our business throughout our report, rather than restricting our Plan A coverage to a single chapter. This way, it is easier for shareholders to see how our sustainability programme works in our different divisions. It also reflects how Plan A works in practice; it is not an add-on, it is an integral part of how we do things at M&S. More detailed information is available on our online Plan A 2014 report at **marksandspencer.com/plana2014**

Navigating this report
In this document you will see a series of icons that demonstrate how we've integrated information about our business model with details of our strategy and risk. The easy-to-identify icons also tell you where to look for further information.

*Group revenue and International revenue increases are stated on a constant currency basis throughout the Strategic report. At actual rates, Group revenue was up 2.8% and International revenue was up 7.3%.

M&S.com

After more than two years of development, we launched our new M&S.com flagship in February. The website marks a significant milestone in our journey to become a truly multi-channel retailer. Our strategy allows customers to shop with us however they choose – whether online, in stores or by phone.

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M&S.com sales

£800.1m

↑22.8%

Weekly site visits

5.5m

↑7.8%**

Shop Your Way stores

498

↑22 stores

Plan A

Since it launched in 2007, our Plan A ethical and environmental programme has become part of the fabric of the business. We constantly update Plan A, and the next phase, Plan A 2020, sets out a new and revised set of 100 commitments and represents another step along our journey towards becoming a truly sustainable retailer.

marksandspencer.com/plana2014

Total Plan A 2020 commitments

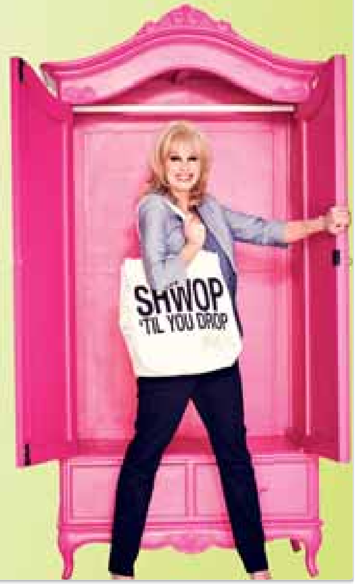
100

Commitments achieved

9

Commitments on plan

79



Online shareholder information

In order to keep shareholders fully up-to-date, we have comprehensive financial and company information on our website. It means that shareholders can access all the information they require, 24 hours a day.

- Plan in action
- Plan A
- Risk
- Looking ahead
- Discover more online
- Read more

Over 27,000 shareholders have signed up for electronic communications. To register, just go to marksandspencer.com/investors and follow the 'Electronic Shareholder Communication' link.

Investor Relations app

Our Marks & Spencer Investor Relations app provides information to investors and the financial media in an iPad™ optimised format. The app displays the latest share price information and corporate news. It also contains financial reports, presentations and videos. For more information visit marksandspencer.com/investors

**Based on restated FY13 figure of 5.1m following upgrades to the Omniture analytics implementation, which improved the data capture from tablets, resulting in a more accurate view of site visit count.

Chairman's statement

Robert Swannell
Chairman

Interim dividend paid on 10 January 2014
6.2p

Final dividend to be paid on 11 July 2014
10.8p

Total dividend for 2013/14
17.0p

The retail industry is going through a period of profound change. Many of the actions we set out as part of our strategy three years ago, and have since implemented, put M&S in a stronger position to compete in this new world.

In 2013/14, we delivered major infrastructure projects that strengthened our business. Our new M&S.com website and our new distribution centre at Castle Donington are both essential in our strategy to transform M&S from a traditional British retailer into an international, multi-channel retailer.

We have repositioned our website as our flagship and its design has been centred on the needs of our customers. Castle Donington is one of the largest dedicated e-commerce sites in the UK and is capable of processing over one million products a day. We are now working to ensure these projects deliver at their full operating capability.

We made these improvements against a challenging economic backdrop. Consumer confidence improved over our financial year but overall increases in incomes lagged inflation, meaning that consumers did not feel the benefit in their discretionary spending.

Our performance over the year was mixed and, as a result, our underlying profits before tax fell 3.9% to £623m.

Our three-year programme of exceptionally high capital expenditure associated with our strategic priorities is now completed. We are working hard to prepare our business for the future, while not forgetting the values that underscored our past. Now we are focused on delivering the financial results from this investment.

Performance

We made progress in three areas this year: Food, M&S.com and International. Our online business performed ahead of the market and the new website, launched in February, was recognised as industry-leading; our food business is growing faster than the market and operational efficiencies were achieved; and we saw growth in our International business, with a strengthened presence and significant growth in our priority markets. However, our General Merchandise performance did not meet our own expectations. The team is working hard on a comprehensive plan to address this. Improvements in product quality and style were welcomed by our customers and, together with operational efficiencies, now have to be delivered consistently to translate into the required improvements in financial performance.

Dividend

Our dividend policy remains a progressive one, with dividends broadly twice covered by earnings. In line with this policy, we remain committed to delivering consistent returns to our shareholders. We intend to pay a final dividend of 10.8p this year, taking the total dividend to 17p, unchanged from last year.

The Board's priorities

In my first report as Chairman in 2011, I wrote that the Board focuses its work on three main areas: strategy and execution, people and succession, and values. This remains the case.

Our strategy to transform M&S from a traditional British retailer to an international, multi-channel retailer remains unchanged. Whilst the Board continues to discuss each element of the strategy, the focus is on execution. With demonstrable progress in our Food and International business, and clear advances in our infrastructure, the attention has been particularly focused on the progress in executing the key steps to improve our General Merchandise business performance.

In relation to people and succession, there have been a number of changes to the Board this year. All of these have been carefully managed to ensure effective succession plans were in place.

Governance profile

- Our number of independent non-executive directors is in line with the UK Corporate Governance Code
- Our Senior Independent non-executive director is Jan du Plessis
- We have clear separation of duties between Chairman and CEO roles
- Performance evaluation of the Board and its Committees was undertaken during the year and is externally facilitated at least every three years (due 2015)
- The Directors have all attended an acceptable level of Board and Committee meetings
- The Directors all stand for re-election annually
- The composition of all Board Committees complies with the application recommendations of the Code
- Two members of the Audit Committee have recent and relevant financial experience
- We have a Policy for the award of non-audit work, which is disclosed on our website, and we have disclosed the non-audit work undertaken
- The tenure of our external auditor was over 10 years. We have appointed a new statutory auditor for 2014/15, subject to shareholder approval
- We disclose our external auditor appointment policy
- Details on the internal audit function are provided in this report
- A significant part of our performance-related pay is delivered through shares
- Our reward framework is simple and transparent, designed to support and drive our business strategy.

Our governance principles

Leadership
Your Board rigorously challenge each other on strategy, performance, responsibility and accountability to ensure that the decisions we make are of the highest quality.

Read more on page 40

Effectiveness
The Board's performance is scrutinised in an annual effectiveness review. This examines the progress we are making against our plan, our collective and individual effectiveness, and the independence of our non-executive directors.

Read more on page 40

Risk management
All of our decisions are discussed within the context of the risks involved. Effective risk management is central to us achieving our strategic objectives.

Read more on pages 15 and 44

Engagement
Maintaining strong relationships with our shareholders, both private and institutional, is crucial to achieving our aims. We hold numerous events throughout the year to maintain an open dialogue with investors.

Read more on page 45

In June 2013, Jeremy Darroch, a non-executive director and Chairman of our Audit Committee, stepped down from the Board after six years. Andy Halford, who joined us in January 2013, has taken over as Chairman of that committee, as planned.

As we announced last year, our longest serving non-executive director Steven Holliday will leave the Board after the AGM this July, having spent a decade with us. I would like to thank Steve for his outstanding contribution, and in particular for his role as Chairman of the Remuneration Committee for the last three years. Vindi Banga will replace Steve as Chair on his departure.

Ahead of Steve's departure, Alison Brittain was appointed as a non-executive director in January of this year. As Group Director for the Retail Division of Lloyds Banking Group, Alison brings strong financial and commercial experience, along with a wealth of knowledge from running customer-facing retail branch networks, and I welcome her to the Board.

Within our executive team, Steve Sharp, our long-standing Executive Director of Marketing, was succeeded in this role by Patrick Bousquet-Chavanne following Patrick's election to the Board at the AGM last year. Steve left M&S in February 2014 with our thanks for the significant role he played in shaping the M&S brand over the last 10 years and for his help in introducing Patrick to the role.

Our heritage, values and Plan A

M&S has been trading for 130 years. Our success over that time stems in large part from our commitment to clear core values, including quality and trust. Just as enduring values have defined our past, so they are crucial to our future. In recent years public mistrust has spread through many areas of business and this stems from the absence of clear values. This is not the case at M&S, where an emphasis on integrity is at the heart of the way we do business. We expect to be held accountable by our customers, shareholders and other stakeholders in this respect.

Nothing demonstrates our commitment to our values more than Plan A, our programme to become the world's most sustainable major retailer. We have deliberately set the bar high for ourselves. We strive for excellence in this field and are candid when we don't measure up. 'Doing the right thing' makes economic as well as ethical and moral sense: a sustainable business is also a profitable business. We have just launched a new set of commitments that will refocus Plan A to ensure M&S is set up to respond to the new models of sustainable change. The commitments will also ensure that Plan A's values are clearly communicated to customers.

Stakeholder engagement

We take time to inform our stakeholders about progress in the business and we have found this is particularly important at a time of major transformation. We have held 10 investor days on different aspects of our business since August 2012. All information shared at these events is available to shareholders at marksandspencer.com/investors.

We also have strong internal channels of communication to keep employees informed. Our annual internal Business Conference ensures both our retail and head office leadership teams understand our strategy, and employees are regularly updated on our plans through a wide range of activities, including our employee magazine and online news updates. All employees have access to Yammer, an internal social network. This year, our non-executive directors increased their engagement with colleagues in the business through our popular Employee Breakfasts and Non-Executive Lunches.

Looking ahead

Our capital expenditure will fall in the year ahead as we complete projects that accounted for exceptional capital expenditure as part of our transformation programme.

Our priority now is to deliver on the investment we have made and to make M&S more profitable, as well as a stronger, well-equipped business. There is real potential for further profitable growth, both in the UK and overseas. We have highlighted the opportunities for growth and performance improvements in each area of our business in this report and at our recent investor days: this applies in both our Food and General Merchandise businesses, whether in store or online, in the UK or internationally.

Finally, we are fortunate to have exceptionally talented and dedicated employees. I never cease to be impressed by their commitment to M&S and their pride in what they do. One of the great highlights of my year is meeting the many who have given 25 and 40 years service. There are some quite remarkable stories amongst them and they exemplify the spirit alive in the company. We thank every one of our employees for their contribution through a period of considerable change.

Robert Swannell
Chairman

Marketplace

Overview

It is crucial that we listen to our customers to understand what they expect from us and how the economy is affecting their shopping behaviour. Our Customer Insight Unit (CIU) listens to and analyses responses from 18,000 customers a week and combines market research with customer feedback to monitor the national mood.

Market overview

The UK economy is improving. Gross Domestic Product is predicted to grow by 2.7% in 2014, while house prices have increased by 8.5% in a year. Inflation is falling and employment is rising. Just 14 months ago, consumers were concerned about a triple-dip recession. Now, a genuine recovery feels like a more realistic possibility.

As a result, there has been a steady increase in consumer confidence over the last year and people have started to feel that the worst is over. But the increase in confidence is not yet translating into a complete turnaround in consumer behaviour. Spending remains measured. Despite glimpses of happier times ahead, people remain level-headed. Indeed, although confidence is higher than it has been for years, it is still in negative territory. There are two main reasons why.

First, people realise that we are not out of the woods yet. Consumer debt is still high, the government's austerity programme could run for another six years and wage growth has only just caught up with inflation. People recognise that the current low interest rates will not last for ever.

Second, the downturn has made consumers warier and more alert than they were. They are telling themselves that they won't be led into trouble again. They blame the banking crisis on reckless extravagance and the notion of consequence has taken root in the national psyche. As a result, shoppers are being more considered and consumers are being more cautious with their money.

They are prepared to spend, but they seek real value and real quality. When they do splash out, it is on targeted treats and celebrations.

How this has affected M&S

Subdued spending continued to affect the retail sector this year, and saw deep levels of promotion, particularly in the lead-up to Christmas. M&S responded to this promotional landscape by offering more promotions than in previous years. However, the emphasis on treats played to our strengths. Whether they were after a new pink coat, a special meal or cushions to refresh the home, customers were constantly recognising the quality of M&S products.

When it came to clothing, people were spending more money on our 'better' and 'best' ranges. This fitted in with our strategy of emphasising the quality, style and heritage of our clothes. The customer and fashion press feedback on our new ranges was extremely positive.

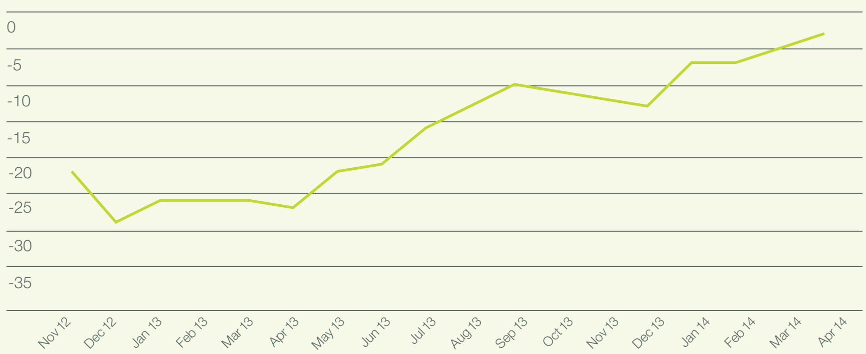
Consumers are taking greater pleasure in food and cooking. They have become more curious about different foods and are looking to experiment and for that little extra indulgence. This did not translate into extravagant spending, but contributed to the trend of consumers demanding more – if they were going to spend their money, they wanted something special in return. Customers are also willing to spend a little more on special events. We responded with newness and innovation, and more special occasion foods than ever before.

The internet has changed the way consumers shop. An increasing number of customers are using online as a source of inspiration and research before they purchase in stores or online. They are looking for editorial fashion and lifestyle guidance, and want a seamless brand experience wherever they choose to browse and buy. Customers also like shopping in store and expect the flexibility offered by click and collect services – they want to purchase what they want, when and where they want it. We responded with our new website, which focuses on delivering a better browsing experience, as well as an improved buying process, as explained on page 26.

Our priority markets of India, China, the Middle East and Russia have all seen GDP growth. The rise of the middle class in these markets has firmly established shopping malls as the key vehicle for international trade, with the landscape dominated by large shopping mall operators who have specialist insight and expertise of the markets in which they operate. This has driven our international strategy of working with partners to open flagship stores in prime malls and key shopping locations. Another emerging trend is the growth of the lingerie market in the Middle East and India, which is expected to grow by 30% and 54% respectively by 2017. We responded with our first standalone Lingerie & Beauty store.

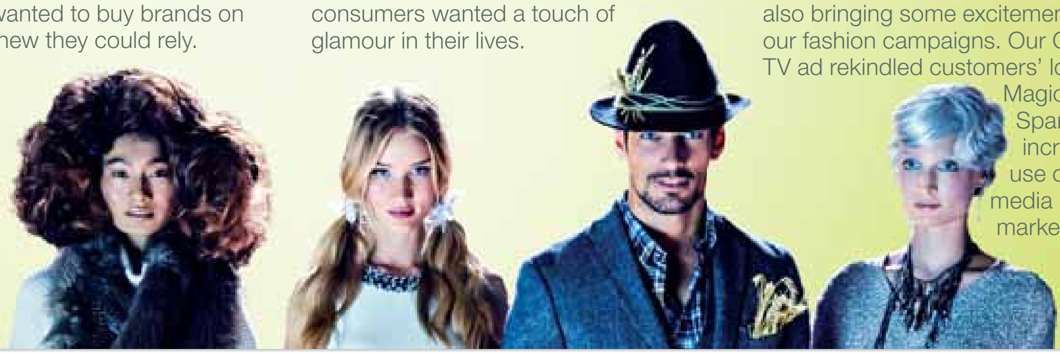
The Eurozone is also on the turn. The growth opportunity in our other priority market, Western Europe, lies in the rapidly expanding online clothing market. We responded with a bricks and clicks strategy, which focuses on flagship stores that deliver brand presence supported by a strong online offer. Our food is as unique internationally as it is in the UK, and the growing demand in Western Europe for convenience food shops opens up new opportunities for Food store growth.

Consumer confidence index



Source GfK

How we have responded

Business area	Impact	Response
Clothing The overall clothing market grew in value terms but slowed in volume terms as shoppers were more measured in their spending. Whilst confidence levels were up on last year, this did not translate to strong sales on the high street, although signs of improvement in the clothing market started to come through.	Consumers targeted their purchases carefully. They wanted to be sure they were getting a good balance of value and quality, and looked to purchase 'better and best' items. 	We listened to our customers and focused the relaunch of our Womenswear on style, quality and design. We upgraded 70% of our fabrics, added more luxurious finishes and improved our 'better and best' offer with more leather, silk and cashmere. We brought more clarity and distinction to our sub-brands to make them more compelling and easier to shop, which had a good response from our target audiences. The well-received relaunch was also accompanied by a new, more inspirational store concept.
Food Inflation fell to below the Bank of England's target of 2% for the first time in over four years, giving households a welcome reprieve from the squeeze on their finances. Food price growth was among those to fall. 	Consumers still wanted value from their day-to-day shop but were also treating themselves more, with millions splitting their weekly shop between low-cost discounters and high-quality convenience operators such as M&S. The mainstream supermarkets in the middle continued to cut prices. At the same time, people started eating out more.	Our Food business had another very strong year as customers were drawn by our top quality, competitively priced food and offers that continue to deliver restaurant-quality food at home. Our more indulgent festive range resulted in our biggest Christmas ever. The excitement and newness of our ranges continued to delight customers.
M&S.com The UK online retail market grew by 16% in 2013 and is forecast to grow by a further 17% this year. 2013 was the 'year of the mobile', with twice as much spent via mobile devices in December 2013 than the year before.	Consumers across the UK now expect to be able to browse, shop and collect their goods anytime, any place, anywhere. The distinction between 'store' shopping and 'online' shopping is becoming increasingly blurred. 	Our new flagship, M&S.com, launched in the spring and was built around the customer, with over two years of extensive testing with hundreds of existing and potential customers. The industry-leading site is designed to deliver a joined-up experience, whether viewed on a desktop, tablet or mobile phone.
Brand Despite the improving economy, consumers wanted to buy brands on which they knew they could rely. Social media became an increasingly integrated part of many people's lives.	Brands had to be bolder in their messaging. After years of austerity, consumers wanted a touch of glamour in their lives. 	Our bold 'Leading Ladies' campaign reasserted our quality credentials while also bringing some excitement back to our fashion campaigns. Our Christmas TV ad rekindled customers' love of Magic and Sparkle. We increased the use of social media in our marketing mix.

How we create value

The M&S difference

The M&S difference
With our rich heritage, M&S occupies a unique place in Britain and is regularly voted as one of the UK's most trusted brands. Since we opened our first penny bazaar in Leeds 130 years ago, quality and innovation remain the steering force behind our business and they run through everything we do. They are what make the M&S difference across the 54 territories in which we now operate.

Understanding our customers
We listen to and closely monitor how our customers are feeling and how the wider economy is impacting their spending decisions. This way we can ensure that the products and services that we sell remain relevant to customers' needs. Our Customer Insight Unit (CIU) is a dedicated in-house team that listens and talks to around 18,000 customers every week through research and focus groups. We also have a constant dialogue with our 1.8 million Facebook fans and 318,000 Twitter followers. By understanding customers' everyday lives today, we can also anticipate how their needs and habits might change in the future.

Competitive advantage
Our clothing and food is developed especially for us, and our customers cannot buy them anywhere else – a business model which makes us unique. We have had an innovation culture since we went into business in 1884 and it ensures our products always stand out. We believe that encouraging innovation among our employees – from our clothing designers and food technologists, to our visual merchandisers and customer assistants – gives us a point of difference over our competitors.

Our business model

What we have

Shareholder equity
£2,706.7m

Debt (total borrowings)
£2,103.8m

Capex
£710m

Employees
85,813

Suppliers
3,000

Franchise and JV partners
26

Natural Resources
- 566,000 t of CO_2e
- 33 kWh/sq ft of energy
- 49 litres per 1,000 sq ft of water
- Raw materials

The M&S difference

Customer and market insight

Strategy

Innovation

Own brand model

Customer service

Smart logistics

Financial planning

Risk management

Social purpose

Products

Food
6,400
food products

Clothing
12,300
clothing products

Home
7,700
furnishing products

Beauty
3,300
beauty products

M&S Bank
(joint venture with HSBC)
10
banking products

M&S Energy
(working with SSE)
2
energy tariffs

Reaching customers

Supply chain
1,253 stores

Click and collect

10 websites

Catalogue

National and international

Diverse locations
High streets

Retail parks

Petrol station forecourts

Railway stations

Airports

Hospitals

Value outputs

Shareholder return
£273.6m
(17.0p per share)

Total UK tax contribution
£831m*

Community investment
£14.2m

Employee reward
£1,410.9m

Training & development
1.5 days
per year for every Customer Assistant

Plan A
100 commitments £145m net benefit

*Total UK Tax Contribution is split between taxes ultimately borne by the Company of £372m (corporation tax, customs duties, employer's NIC, business rates and sundry taxes) and taxes collected on behalf of the government of £459m (PAYE, employees' NIC, VAT, excise duties and sundry taxes).

Reaching our customers
Our store network covers a diverse range of locations from UK high streets and retail parks to our international flagships on key shopping streets and malls. Our M&S Simply Food stores in city centres and travel locations ensure we are in the most convenient places for our customers. We are improving our operations behind the scenes to ensure that the business is as efficient as possible: from our tills to our distribution network to our web platform. This year, we launched our new M&S.com website, as well as our vast 900,000 sq ft distribution centre at Castle Donington, which forms part of the radical reshaping of our warehouse network. Both will improve our ability to reach our customers faster and in whatever way is most convenient for them.

Robust financial management
We believe that having the correct systems and processes in place is as important as firm cost management when it comes to managing our finances. Ongoing improvements in IT, availability and buying are key factors in helping us mitigate cost increases. Our funding approach is similarly disciplined. Future growth is funded through existing cash flows, a policy which supports our commitment to maintain an investment grade credit rating.

Strong relationships
Working closely with our suppliers is hugely important to us – these relationships underpin the trust in our brand. We collaborate with them on every step of a product's journey to ensure that we have a healthy, efficient and mutually-beneficial relationship.

M&S has over 3,000 product, raw material and service suppliers with current social compliance assessments covering many aspects of human rights listed on the Supplier Ethical Data Exchange (SEDEX). We are long-standing members of the UK-based Ethical Trading Initiative (ETI) and Global Social Compliance Programme. We work with our partners and suppliers to assess performance and enact corrective actions against our Global Sourcing Principles. Read more on our sourcing principles marksandspencer.com/thecompany.

Keeping all our shareholders informed of the progress we are making is fundamental to achieving our goals. Since August 2012, we have held 10 investor and analyst events in the UK and overseas. All the information shared during these events is available for our private shareholders to see on marksandspencer.com/investors.

As well as training our employees to the highest standards, we always make sure that M&S colleagues are kept up to date with developments in the business. They are also able to connect with each other via our Yammer internal social network.

We hold regular events with members of the print and broadcast media to ensure that our customers are kept abreast of developments in our business via the press.

Social purpose
M&S cares deeply about the communities in which we operate and our stores are often community hubs. That's why we encourage volunteer work by our employees and open our stores for charity events. We work hard to engage our customers in Plan A – the more we involve them, the greater impact we will have. This year, our employees and customers helped to raise a total of £4.2m for local charities and diverted 4 million pieces of clothing from being thrown away through our Shwopping initiative.

Plan A affects every decision we make; it forces us to think and do things differently. The scheme has grown significantly since we launched our initial sustainability commitments in 2007 and has gone from being prescriptive to being instinctive within the business. To find out more about the progress we made this year and our new Plan A commitments, visit marksandspencer.com/plana2014.

Returns to shareholders
Our dividend policy remains unchanged: to remain progressive with payouts to shareholders broadly twice covered by earnings. Through our Dividend Re-investment Plan, shareholders can automatically use their cash dividend to purchase additional shares in M&S.

Plan for growth
Creating shareholder value relies on having a clear plan for growth. Our three-year strategy to become an international, multi-channel retailer has put us in a strong position for the future. As we look towards the next chapter in our story, we will continue to strengthen our business, listen to our customers, move into new markets and evaluate the ones in which we operate.

Chief Executive's overview

A year of progress

Marc Bolland
Chief Executive

General Merchandise
£4.1bn
→level
Turn to page 20

Food
£5.1bn
↑ 4.2%
Turn to page 22

M&S.com
£800.1m
↑22.8%
Turn to page 26

International
£1.2bn
↑6.2%
Turn to page 28

"We have built a business that is more relevant and fit for the future of retail."

I am pleased to say that this year we have taken several significant steps forward, and I have always described M&S's transformation as a step-by-step process. As we come to the end of our three-year transformation programme, much of our investment is starting to bear fruit and we have built a business that is more relevant for the future retail marketplace.

Sales over the last year rose by 2.7% and our clothing business is beginning to show clear signs of improvement. Our priorities for the year ahead are to continue to turn around our General Merchandise (GM) performance, to drive our Food business and to maximise the many opportunities around our new M&S.com flagship and in our international markets.

Performance overview

Our performance this year was mixed. Our Food division had an excellent year, outperforming the market, and our International division also saw strong growth. We saw online sales rise 22.8% over the year and launched our new website. We were particularly pleased that we saw positive sales growth in clothing in the last quarter. But despite this welcome improvement, our GM division is still not satisfactory and growth in our clothing business needs to be sustained. There remains much to do in GM but I am confident that we are on the right track.

Transforming our business

The last three years have been a period of unprecedented change and investment in M&S. Over the period we have become more customer-driven, repositioning our Food business to become more specialist and relaunching our clothing ranges with the focus on quality and style. We have upgraded our store environments, launched our new website and accelerated our international expansion. We have also built the foundations of a robust infrastructure through new IT systems and logistics developments as we start to reshape our distribution network to a single-tier network.

General Merchandise

During the year, we faced a difficult trading environment, with a highly promotional market and, at times, unseasonal conditions. However, the team we appointed last year to turn around our clothing performance is making progress. I am particularly pleased that our core Womenswear ranges have started to gain momentum. Customers tell us that they like the improvements to the quality, style and newness of our clothing ranges. Our Indigo, Autograph and Limited ranges performed well over the year.

Food

Our Food business continues its strong performance, now with 18 consecutive quarters of like-for-like growth. 2013/14 was another very strong year, ahead of plan and ahead of the market. Sales rose 4.2% as customers continued to enjoy the quality and newness of our products.

Our unique position as an own-brand, specialist food retailer with a sizeable high street presence means that we can reach millions of customers a week with at least 5,000 products out of our range of 6,400. We continue to lead on speciality, quality and innovation. But being a specialist does not mean being expensive. Customers tell us that they get good value when they shop at M&S.

M&S.com

We are becoming a more multi-channel and agile business. Our new M&S.com flagship opened in February after over two years of extensive customer research and testing. Where previously we operated on an Amazon platform, we now have a powerful and flexible platform of our own, allowing continuous improvement and supported by the right skills and culture internally to drive continual innovation. The site is backed by our new 900,000 sq ft distribution centre in Castle Donington.

Our online sales continued to grow as more customers shopped via their computer, tablet or mobile phone.

Our plan for the future

By 2015	Drive UK like-for-like growth	International multi-channel retailer	Drive international presence
By 2013	UK space and like-for-like growth	A leading UK multi-channel retailer	International company
2010–2013	Focus on UK		Brand Clothing Home Food Stores

Building on our progress

We have come to the end of our three-year programme to modernise M&S. It has been a period of profound and transformational change in the business. We must now build on the foundations that we have laid.

General Merchandise

In clothing, we will continue to drive the improvements in our ranges, with a focus on quality and style. Looking ahead, we will increase levels of newness and availability down the chain, while making sure that our ranges are appropriate to our customers' needs.

We believe that we can improve GM margins. Changes to our sourcing operations will see us significantly increase the amount of direct sourcing that we do, particularly in Asia. We will also increase the amount of fabric we obtain through our Open-to-Buy initiative.

Some of our ranges still need to be refreshed. We are working to address this. We must also do more to make our core 55-year-old customers feel at home when they shop with us, while still appealing to customers of all ages.

Food, International and M&S.com

We will continue to grow our Food business by opening 150 new UK M&S Simply Food stores over the next three years. We will keep investing in innovation, quality and newness to ensure that – as a specialist – we offer our customers exciting, great value products. Through supply chain efficiencies, we will work to improve our margins.

There remain significant growth opportunities overseas, where we see the potential for 250 new stores in the next three years. Expansion will continue in our priority markets and we will increase our franchise operations, as we believe that this is a low-capital but high-impact way of expanding. Where possible, we will also expand our Food offer overseas, particularly in Western Europe.

In M&S.com, we now have a flexible and modern web infrastructure that is fit for the future. We believe that M&S.com will be at least as profitable as our store channel. We now have the right skills and culture in place to drive continual innovation in our online activities.

Finance

Now that our period of significant investment is over, our capex will fall over the coming years. We will continue to manage the company prudently and will look to reduce costs where we can.

We are working to deliver a progressive improvement in margin over the coming years and we are committed to improving our free cash flow position.

We have exciting years ahead of us; our transformation is largely complete, we are fit for the future and focused on delivery.

Stores

The roll-out of our new store formats continued apace this year. Our top 70 stores already have refreshed Womenswear departments, and we are introducing revamped Footwear, Menswear and Beauty departments. A key feature of the new stores is their use of technology, from large touchscreens to our very popular Shop Your Way service.

International

Our International strategy continues to deliver strong results, with our priority markets delivering double-digit growth. This year we opened 55 new stores overseas, including flagship stores in India, the Middle East, France and the Netherlands. We see continued future opportunities for new stores, online and new formats in our international markets.

In line with our 'bricks and clicks' strategy, and to complement our existing flagship stores and local website, we announced a partnership with Relay France to open franchise Food stores in key travel locations in Paris, a model that we will replicate in other markets.

Brand

Through our marketing activity, this year we aimed to re-establish M&S's quality and heritage credentials. Our bold, 'Leading Ladies', campaigns showcased our Womenswear lines and featured a diverse cast of British women of achievement. The ads achieved high levels of brand recognition. Our Christmas campaign, which revived our famous, 'Magic & Sparkle' strapline, combined clothing and food for the first time and achieved exceptionally high recognition levels.

Plan A

The principles of Plan A underpin everything that we do. Through initiatives such as Shwopping, our clothes recycling scheme, and the Big Beach Clean-up, customers and colleagues participated in a wide range of Plan A activities this year. Increasing numbers of our suppliers are also now involved in making our sustainability goals a reality. We have worked hard to make Plan A an integral part of our business and our brand.

Marc Bolland
Chief Executive

Our plan in action
Three years of transformation

This year we have made significant progress in transforming M&S from a traditional British retailer into an international, multi-channel retailer. The changes that we have made to our ranges, our stores and our website – as well as to our infrastructure behind the scenes – mean that we are well-placed for the future.

Focus on the UK

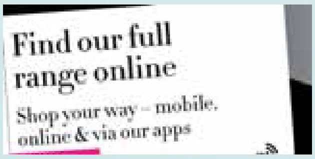
Turn to page 18

Vibrant stores
We are currently rolling out phase two of our store refurbishment programme, giving customers clearer, better-merchandised and more exciting stores.

Trusted for special occasions
We had a record Christmas in Food, with sales up 6.1%, including our biggest ever day at £63m. We sold 1.3 million Christmas puddings and one in four families enjoyed an M&S turkey on Christmas Day.

M&S.com

Turn to page 26



23%

Convenience and flexibility
Online sales rose by 23% this year as customers increasingly chose the convenience and flexibility of shopping with us via their computer, tablet or mobile phone. Our multi-channel strategy allows customers to shop with us anytime, anyplace, anywhere.

Our new flagship
We call M&S.com our new flagship. Radically different and significantly better, it's the best representation of what M&S stands for today. The site contains a range of new features and functions.

International

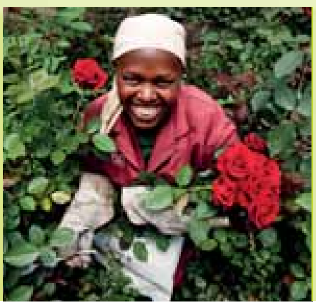
Turn to page 28

Extending our reach
This year we opened our largest international store in Kuwait, our first store in Lebanon and our biggest store in India.

The Hague
In February we opened a 51,700 sq ft flagship in The Hague. The store, which sells extensive food and clothing ranges, forms part of our 'bricks and clicks' strategy in the Netherlands. It sits alongside our Dutch site, marksandspencer.nl, our Kalverstraat multi-channel store in Amsterdam and a series of food stores.

Plan A

marksandspencer.com/plana2014



A global plan
Plan A is not just about the UK. We are now carbon neutral in all our own-operated and joint venture locations worldwide.

Youth employment
We know that the high level of youth unemployment is one of the biggest issues facing the country. Through our Make Your Mark scheme, we are giving young people the confidence and skill sets they need to make the all-important first steps on the career ladder.

M&S on the catwalk
We participated in London Fashion Week for the first time this year, with a preview of our 2014 Best of British Autumn/Winter Womenswear collection. The 54-piece collection was well received by the fashion press.

Quality and style
Customers are responding to the improved quality and style of our clothing ranges and we returned our Womenswear sales to growth for the first time in three years.

Style & Living
Style & Living is the independent editorial section of our new website, offering customers everything from Editor's Picks of all the latest trends to style guides and in-depth articles.

Castle Donington
Having a sleek multi-channel business is as much about what goes on behind the scenes as what happens on-screen. At the start of the year we opened one of the UK's largest fully mechanised e-commerce distribution centres in Castle Donington.

Fresh food overseas
We now have 10 Food stores overseas, with plans to open more in key travel locations in major cities, meaning that more customers can enjoy fresh M&S food every day.

10

Multi-channel
Customers in 9 international territories can buy M&S products from in-language, local currency websites. It is part of our plan to roll-out our multi-channel strategy to more countries.

Plan A products
Over half of all the products we sell now have at least one Plan A attribute to them, either relating to the materials they are made of or to the processes by which they were manufactured.

Fundraising
Our employees and customers have raised £4.2m this year through various fundraising initiatives and charity events, including a 24-hour bike relay and participation in the World's Biggest Coffee Morning.

£4.2m

Performance against the plan

Key Performance Indicators

Our KPIs have been updated in line with our future plans for the business. This includes our growth ambitions in online and international, a greater focus on margin improvements and recognition of sales through our franchise partners reported as global retail sales.

Financial Highlights

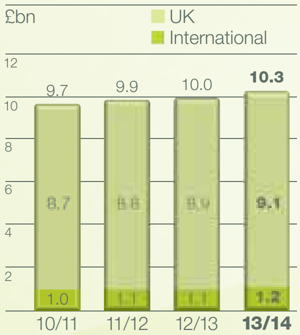
Group Revenue

£10.3bn

↑ 2.7%

Definition: Total Group sales including retail sales for owned business and wholesale sales to franchise partners.

This year Group revenues were driven by good performance across our Food, M&S.com and International businesses.



Underlying Group profit before tax

£622.9m

↓ 3.9%

10/11	11/12	12/13
£714.3m[2]	£705.9m[2]	£648.1m[1]

Definition: Underlying profit provides additional useful information on the underlying performance of the business adjusting for either income or charges which are both one-off and significant.

As we responded to a highly promotional marketplace, UK gross margin was down 20bps. Whilst we worked hard to mitigate impact on profitability, this factor, coupled with a 3.5% increase in UK operating costs, impacted underlying Group PBT.

Free cash flow (pre dividend)

£427.9m

↑ 109.7%

Definition: Free cash flow is the net cash generated by the business in the period before dividend payment.

Improvement in free cash flow was driven by a year-on-year reduction in capital expenditure and better working capital management.

ROCE

14.8%

LY 15.8%

10/11	11/12	12/13
16.7%[2]	16.4%[2]	15.8%[1]

Definition: Return on capital employed is a relative profit measurement that demonstrates the return the business is generating from its net operating assets.

The reduction in ROCE from last year reflects a reduction in underlying earnings and an increase in average net operating assets.

Dividend per share

17.0p

→ Level

10/11	11/12	12/13
17.0	17.0	17.0

Definition: Dividend per share declared in respect of the year.

The Board is recommending a final dividend of 10.8p per share, resulting in a total dividend of 17.0p, in line with last year. The Board remains committed to a progressive policy with dividends broadly twice covered by earnings.

Underlying earnings per share

32.2p

↑ 0.9%

10/11	11/12	12/13
34.8p[2]	34.9p[2]	31.9p[1]

Definition: Earnings per share (EPS) is the underlying profit divided by the average number of ordinary shares in issue.

Underlying earnings per share increased by 0.9% to 32.2p per share. The weighted average number of shares in issue during the period was 1,615.0m (last year 1,599.7m).

Looking ahead

We have previously announced our plan to improve free cash flow from 2014/15, as we continue to reduce capital expenditure, deliver a progressive improvement to gross margin and improve business performance.

We have worked hard to prepare our business for the future. Now we are focused on delivering the results from this investment and driving returns for our shareholders.

General Merchandise

Global retail sales

£6.1bn

↑ 1.7%

Definition: Global retail sales to the customer from both owned and franchise businesses.

Whilst our General Merchandise (GM) performance is not yet satisfactory, our clothing business is beginning to show clear signs of improvement, with new ranges consistently well received by customers.

UK gross margin

50.7%

↓ 110 bps

Definition: Gross margin reflects the percentage of sales revenue retained after incurring the direct costs associated with producing and transporting goods to a saleable location.

Due to the highly competitive market, GM gross margin was down 110bps at 50.7% as a result of increased markdown and promotional cost.

UK LFL sales growth

-1.4%

Definition: Sales growth from those stores which have been open for 12 months.

We faced difficult trading conditions, with a highly promotional clothing market and unseasonal weather. However, improvements were demonstrated by positive sales growth in our clothing division in the last quarter.

Looking ahead

We will continue to improve our GM business with a focus on style and quality. As a result of operational improvements, we expect to improve our GM gross margin in FY2014/15 by c.100bps through a combination of tactical changes, new systems and a new approach to sourcing, as well as early benefits from structural improvements.

Food

Global retail sales

£5.8bn

↑ 4.5%

Definition: Global retail sales to the customer from both owned and franchise businesses.

Our strategy is to be more specialist and focus on quality and innovation. Through improvements in availability and choice, we made M&S food more relevant to our customers, more often.

UK gross margin

32.5%

↑ 80 bps

Definition: Gross margin reflects the percentage of sales revenue retained after incurring the direct costs associated with producing and transporting goods to a saleable location.

Food gross margin was up 80bps at 32.5%. This was driven by supply chain efficiencies and effective management of promotional activity – more than offsetting commodity price inflation.

UK LFL sales growth

1.7%

Definition: Sales growth from those stores which have been open for 12 months.

The Food division has seen 18 quarters of positive like-for-like sales growth and our customer satisfaction ratings are at an all-time high.

UK space growth

2.3%

Definition: Year-on-year increase in weighted average UK selling space.

We continue to grow Food space, particularly our successful M&S Simply Food format.

Looking ahead

We will continue to exploit the opportunity in our Food business – maintaining our specialist strategy and growing our Food space. The planned opening of new Food space will add c.2.5% in 2014/15. Food gross margin is expected to grow by 10bps to 30bps due to further operational efficiency.

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).
2. For the years ended pre-2011-12, no restatement for the revised IAS 19 'Employee Benefits' have been made.

M&S.com

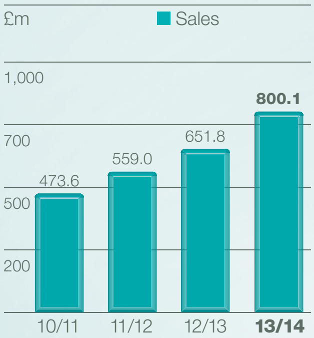
M&S.com sales

£800.1m

↑ 22.8%

Definition: Total multi-channel sales including web to home and Shop Your Way transactions.

Our new flagship M&S.com website offers customers an improved browsing and buying experience. M&S.com has delivered a strong performance in 13/14 and outperformed the market with sales up 22.8%.



Weekly site visits

5.5m

↑ 7.8%

Definition: Weekly visits to our UK desktop, tablet, mobile and app sites.

As customer shopping habits continue to evolve, and as part of the new M&S.com, we launched a dedicated tablet platform and updated versions of all our mobile sites and apps. Visits from tablet devices grew by around 90% this year.

Looking ahead
As our new website settles we are encouraging more customers to shop with M&S online. Our infrastructure investment will help us further improve our delivery proposition and create a more efficient and more profitable online channel.

International

Revenue

£1.2bn

↑ 6.2%

Definition: Sales from the International business including retail sales for owned business and wholesale sales to franchise partners.

Our priority markets delivered a good performance with strong growth in India and our flagship stores in China, driven by an increase in like-for-like sales and the opening of new space. While trading in the Republic of Ireland continued to be difficult, performance in our European business improved.

Our franchise business across the Middle East and Asia continued to perform well.

Underlying operating profit

£122.7m

↑ 2.1%

Definition: Year-on-year increase in operating profit generated by the International business.

We increased International operating profit by 2.1%, which also takes into account pre-opening costs from our owned stores.

Space growth

9.3%

Definition: Year-on-year increase in International selling space International space is expected to grow by c.10% in 2014/15.

Looking ahead
We will expand our presence through opening new space, growing our food business and increasing our franchise operations. Over the next three years we will grow International revenues by 25% and grow International operating profit by 40%.

Plan A

Percentage of M&S products with a Plan A quality

57%

Definition: Plan A qualities are best practice environmental or social standards and are measured by the volumes of products sold worldwide. These include factory best practices and the use of sustainable raw materials such as sustainable wood, fish and cotton, as well as Fairtrade and recycled materials.

We have again extended the number of products featuring a Plan A quality – helping to make our products, suppliers and raw materials more efficient and resilient.

Gross greenhouse gas emissions

566,000 tonnes CO_2e

(No last year equivalent)

Definition: Total gross CO2e emissions resulting from M&S operated activities worldwide calculated in compliance with the WRI/ WBCSD GHG Protocol Corporate Accounting and Reporting Standard (Revised) using revised carbon conversion factors published by DECC/ DEFRA in June 2013.

This is the equivalent of 30 tonnes per 1,000 sq ft of salesfloor. Our net emissions are offset to zero.

Looking ahead
Our aim is for all M&S products to have at least one Plan A quality by 2020.

We have targets to improve energy efficiency by 50% and reduce refrigeration gas emissions by 80% by 2020. We also plan to continue to offset our gross greenhouse gas emissions to zero (carbon neutral).

People behind the plan
Driving transformation

Management committee

1. Marc Bolland
Chief Executive

2. Patrick Bousquet-Chavanne
Executive Director, Marketing & Business Development

3. John Dixon
Executive Director, General Merchandise

4. Steve Rowe
Executive Director, Food

5. Alan Stewart
Chief Finance Officer

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

7. Andy Adcock
Trading Director, Food

8. Sacha Berendji
Retail Director

9. Clem Constantine
Director of Property

10. Tanith Dodge
Director of Human Resources

11. Steve Finlan
Director of International Operations

12. Dominic Fry
Director of Communications and Investor Relations

13. Jan Heere
Director of International

14. Dirk Lembregts
Director of Supply Chain

15. Amanda Mellor
Group Secretary and Head of Corporate Governance

16. Darrell Stein
Director of IT

"The progress that M&S has made this year would not have been possible without the dedication of all our employees. I would like to thank every employee for their enthusiasm, hard work and passion over the last year."

Having the right team in place is crucial to delivering our plan, and this year we continued to benefit from the wealth of experience on our Management Committee.

Our leadership team is composed of people with extensive and broad careers at M&S, as well as those brought in from outside with specialist expertise. The team has wide-reaching global experience, which is an essential asset as we become a more internationally-focused retailer. Together they have helped to build a significantly stronger M&S.

In March this year, we announced that Clem Constantine, Director of Property, and Darrell Stein, Director of IT, will be leaving the business in the summer. Both of their roles have significantly changed recently as we will be opening less GM space which changes our property focus, and our new e-commerce platform has now been delivered. Clem has brought his considerable expertise to growing our store network and Darrell has played an integral role in delivering M&S.com. I wish them both all the very best for the future.

The Management Committee is ably supported by a strong team from across the business. The progress that M&S has made this year would not have been possible without the dedication of all our employees. Our customers constantly tell us that they recognise the high levels of commitment among our people. I would like to thank every employee for their enthusiasm, hard work and passion over the last year.

Marc Bolland
Chief Executive

Risk management

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. Each business area is responsible for identifying, assessing and managing the risks in their respective area.

Risks are identified and assessed by all business areas half-yearly and are measured against a defined set of criteria, considering likelihood of occurrence and potential impact to the Group. The Group Risk function facilitates a risk identification and assessment exercise with the Executive Board members. This information is combined with a consolidated view of the business area risks. The top risks (based on likelihood and impact) form our Group Risk Profile, which is reported to the Executive Board for review and challenge, ahead of it being submitted to Group Board for final review and approval.

To ensure our risk process drives continuous improvement across the business, the Executive Board monitors the ongoing status and progress of key action plans against each risk quarterly. Risk remains a key consideration in all strategic decision-making by the Board, incorporating debate on risk 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.

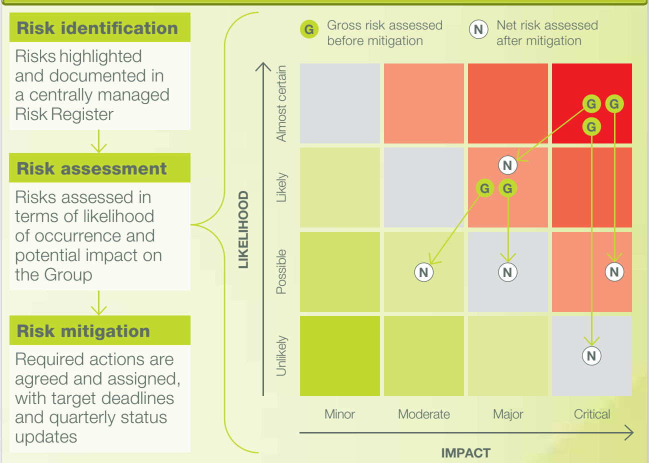
During the year we have focused on a number of key areas:

1. Evolving risks
Our Group Risk Profile has evolved over the course of the last year, responding to the dynamic environment within which we operate and our strategy to become a truly international, multi-channel retailer. Three new risks have been introduced (M&S.com business resilience, GM margin and Information security).

2. Risk appetite
Risk appetite is an expression of the types and amount of risk we are willing to take or accept to achieve our objectives and aims to support consistent, risk informed decision-making across the Group. Our vision for risk management is that all significant risks to the achievement of our strategic objectives are identified, assessed and managed to within acceptable levels.

Risk appetite continues to be a key consideration in strategic decision-making by the Board and we recognise the importance of including the concept in risk discussions across all levels of the organisation. It is especially relevant in determining the nature and extent of mitigating actions and their role in addressing risk likelihood or impact.

Risk likelihood and impact grid



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.

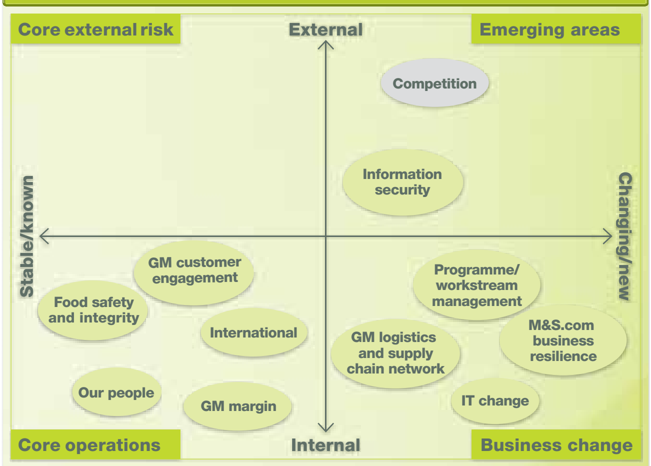
Overleaf are details of our principal risks and the mitigating activities in place to address them. It is recognised that the Group is exposed to a number of risks, wider than those listed. However, a conscious effort has been made to disclose those of most concern to the business at this moment in time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

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-level discussions on risk.

Risk radar



Risk management continued

Description	Mitigating activities
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 customer engagement **Continued loss of engagement with our customer** As we seek to enhance the M&S brand, it is important that we understand and address our customers' needs in increasingly competitive UK and international markets and that we deliver a consistent M&S customer experience across all selling channels.	– Prioritisation of core customer in both GM and Marketing objectives – Regular review of customer reaction to product and in-store and online experience through focus groups and in-house Customer Insight Unit presentations – Ongoing improvements to product style and quality and to store environment, addressing specific customer feedback – Targeted marketing and promotional activity using customer loyalty data – Increased focus on quality and style, including the introduction of a Clothing Quality Charter – Updated M&S.com website to enhance the online customer shopping experience
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** To support our transformation to an international, multi-channel retailer, it is essential that our organisational set-up allows us to respond to market changes and competition with pace.	– External hires recruited into a number of senior roles bringing an alternative perspective and new skills – Robust employee engagement process for effective communication – Alignment of development programmes with business strategy – Faster decision-making enabled through the removal of structural complexity
Programme and workstream management **Benefits from our major business programmes and workstreams are not realised** We continue to undertake a number of major programmes to underpin the achievement of our plan; the delivery of forecasted benefits is critical to this.	– Strategic Programme Office centrally governs Group 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
GM logistics and supply chain network **We fail to evolve our supply chain and logistics network to maximise availability to customers and speed-up delivery times** Now that we have successfully launched the new national e-commerce distribution centre, we must continue to focus on the implementation of our single-tier network, including the full ramp-up of the Castle Donington distribution centre ahead of Christmas peak trading.	– Robust programme governance in place with clear identification of interdependencies with other Group initiatives – Phased approach to distribution centre transformation – Ongoing monitoring of progress against milestone plans and operating objectives – Ongoing review of contingency requirement during Castle Donington facility ramp-up

Description	Mitigating activities
Selling channels: We have ambitious plans for our UK, International and Multi-channel businesses as part of our transformation to be an international, multi-channel retailer	
M&S.com business resilience **A major failure of our M&S.com platform or at our Castle Donington distribution centre impacts our ability to trade online** As our online flagship grows and our network infrastructure and operating model evolves, it will become increasingly important to ensure that the M&S.com business is resilient and key dependencies are identified and mitigated.	– Dual site M&S.com command centre operates 24/7 to monitor website availability and performance – Social media monitored 24/7 to observe and respond to trends in customer experience online – Business continuity plans, incident reporting and management procedures are well established and tested with regular monitoring, including quarterly Business Continuity Committee meetings
International **Our plan to grow our International business is limited by performance in legacy markets, the start-up profitability of new markets and substandard infrastructure** As we continue to increase our international presence and build our position in priority markets, it is crucial that we maximise performance in both legacy and new markets, supported by robust systems and supply chain capability.	– Senior International team strengthened – Local knowledge provided by franchise and joint venture partnerships – Frequent monitoring of performance, including individual country reviews and a particular focus on like-for-like performance and poor performing stores – Property Board approval of new store openings and monitoring of returns on investment – 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 margin **Failure to improve GM margin** It is important that we deliver increased GM margin through improved design and sourcing capability, whilst continuing to drive improvements to product quality.	– Margin targets defined and regularly monitored – Robust planning process for all promotional activity – Sourcing capability strengthened through hiring two overseas Sourcing Directors – End-to-end review of General Merchandise design, trading and sourcing underway – Clothing Quality Charter embedded
Information security **We experience a major breach in cyber, system or information security** The business is subject to external threats from hackers or viruses, or sensitive data is accessed without authorisation.	– Extensive security controls in place in accordance with International Standards (ISO 27002) – Established processes, policies and technologies in place designed to enhance security – Tight control of sensitive data through limited and monitored access and the roll-out of systems possessing enhanced security – Established team dedicated to managing security requirements for the new M&S.com platform
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 remains high, 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 will evolve as mitigating activities succeed in reducing the net risk over time, or as new risks emerge. As such, we have removed three risks from our Group Risk Profile since the prior year:
- Economic outlook: the economic environment in which we operate will always present an inherent risk to our business. Our ability to respond to market changes is key and this is reflected within the risk related to 'Our people'
- Multi-channel: we have successfully launched the multi-channel platform on time and on budget
- GM stock management: this no longer features in our principal risks, recognising our increased controls in this area

There are three new risks (**Information security**, **GM margin** and **M&S.com business resilience**). Two have been updated; **GM customer engagement** (2013: GM product), and **GM logistics and supply chain network** (2013: Distribution centre restructure). The remaining five risks are broadly consistent with the prior year.

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 112 to 115.

Our brand
Driving reappraisal

Patrick Bousquet-Chavanne
Executive Director,
Marketing & Business Development

Overview
Intelligence and innovation. Quality and style. A rich history and an extraordinary global reach. These are some of the attributes that make M&S unique. Our aim this year was clear: to reassert M&S as a brand of style and substance in GM, and to showcase the quality, innovation and provenance of our Food. In order to stand out in both a competitive marketplace and our customers' minds, it is crucial that we are consistent in everything we do. We aim to deliver a holistic brand experience that spans our products, our sub-brands, our marketing and, critically, our in-store environments. We have a broad range of customers. But within that we have clear customer groups, and we worked hard this year to remain relevant to each one of these groups via compelling and relevant targeted marketing initiatives. There remains plenty to do. Even though we have over 34 million customers, there are many more people who we should appeal to. If the past year has been about restating our values to core customers, next year is about reactivating a love for M&S among lapsed customers and attracting new ones.

Leading campaigns
Our 'Leading Ladies' campaign by Annie Leibovitz is a powerful expression of what today's M&S stands for. Arranged in Leibovitz's signature life-style tableau, the images featured influential British women of achievement wearing M&S – from Oscar-winner Emma Thompson to Olympian Nicola Adams and Baroness Lawrence of Clarendon. Although diverse in background, they share one common attribute: an uncompromising drive to achieve their goal. These dynamic women represent and celebrate the unique and diverse women of modern Britain.

The campaign, which launched in September and March on social media first, followed by print media with billboard backing, achieved remarkable recognition of 52% at its peak and led to an 89% sell-through of the top items. Web videos of the Leading Ladies reminded our customers that we cater for diverse personalities and tastes. The posters and magazine inserts were powerful symbols of M&S's heritage and quality. We don't believe that anyone else could have assembled such a strong line-up.

Our festive campaign
For our Christmas TV campaign we revived the popular 'Magic & Sparkle' franchise, a firm favourite with customers. And for the first time, we combined Food and GM in one campaign. With the nation's mindset still prudent, people went into Christmas with the desire to escape. So the campaign was a rich fantasy, with fashion at its core, based on our favourite fairy tales, starring Rosie Huntington-Whiteley and Helena Bonham Carter. The ad was one of our strongest, with recognition peaking at 83%. The campaign dovetailed with our festive food: many products had a sprinkling of Magic & Sparkle of their own, from our Glitter Juice with drinkable glitter to our Whisky Gold Scottish Smoked Salmon topped with gold flecks.

Many new roads
Marketing was simpler in the past. There was only one way to shop – in a store – and only a limited number of media through which to advertise. Now, many roads lead to M&S, 24/7, 365 days a year. We have to be present wherever our customers are: on the high street, on computers and tablets, on social media or watching TV. The nature of our relationship with customers has changed: our marketing today is interactive, multifaceted and nuanced, and our new M&S.com flagship is pivotal.

Our brand highlights

SHWOP

A My Plan A
This year, we engaged over 330,000 customers in a wide range of online Plan A activities including our Shwopping Facebook app and registering for our Big Beach Clean-up.

Emphatically M&S
Our brands have distinct identities to make them emphatically different, while remaining emphatically M&S. Carolyn Murphy and David Gandy are the faces of M&S Collection, and Rosie Huntington-Whiteley is now the face of Autograph.

"M&S is modern, stylish and has something for everyone."
M&S Customer Feedback

Leading Ladies overseas
As well as running in the UK, our Leading Ladies campaigns featured in 10 of our international flagship stores, from Paris to Prague and Singapore to Shanghai.

M&S en Vogue
As part of a partnership with Condé Nast, the editors-in-chief of magazines, including Vogue and GQ, choose their favourite M&S products to feature in a Pick of the Month section in their magazines, with a crossover to M&S.com.

Socially yours
- We spent over 20% of our Christmas digital marketing budget on social media for the first time, helping us achieve record levels of customer awareness.
- Our Pass the Parcel Facebook game saw customers pass 1.7 million virtual parcels via their mobile phone.
- Over four million people received news of our Valentine's Day offers on lingerie, food and flowers through social media.

Make Today Delicious
Our Make Today Delicious food campaign highlighted M&S as the destination for everyday events, such as picnics, barbecues and Sunday roasts.

Our plan for the future
- Our marketing activity will seek to excite our regular shoppers, entice lapsed shoppers and recruit future shoppers across all product categories.
- We will ensure that M&S communicates in a relevant and inspirational way with our core customers.
- Our store environments will continue to improve to reflect our brand reappraisal and improved shopping experience.
- We will build on the M&S.com publishing platform to deliver an authoritative brand point of view.

Harnessing our brand power

M&S's reach into customers' households is exceptional: we sell everything from fashion and furniture to food, flowers and energy. Consistency in brand execution across all products and media is paramount. We are working hard to close the gap in brand perception between GM and Food and harness the same brand power across our whole business. The same goes for our stores. We are working to bridge the disparity between our flagships and our smaller regional stores that too often lag in reflecting the brand. Addressing that disparity will drive sales and enhance shareholder value.

A Trust in our brand

Plan A underpins the trust our customers have in M&S. So we want to make it as easy as possible for them to get involved. Our aim is to engage one million M&S customers in Plan A activities by 2015 and three million by 2020. Through projects like our Shwopping clothes recycling initiative, we will run a continuous programme of Plan A marketing activity encouraging customers to take action.

R Staying relevant

It is crucial that M&S remains a modern and contemporary brand, both in the UK and overseas. We must attract the customers of the future to ensure our long-term growth. In order to achieve this, we constantly talk to our customers and study trends across the world to help us give them what they want. As a business, we are continually adapting how we do things to fit in with changing desires, media consumption and lifestyles. This way, we ensure that we stay relevant.

General Merchandise
Quality and style

John Dixon
Executive Director,
General Merchandise

Overview
The strategy we outlined in May 2013 was to refocus our GM business on the values that make us famous: quality and style. After a year of exciting changes, our customers are noticing the difference in the fabrics, fit and finishes of our clothing. Our strategy is bearing fruit. In the fourth quarter our clothing division saw positive like-for-like sales growth for the first time in three years. We have listened hard to what our customers want and have increased the amount of new products on sale. Around 45% of our Womenswear range was new this year, helping us return our Womenswear business to growth. We have faced a challenging consumer economy and a highly promotional high street, and we are looking for an improvement in performance. But we have a clear strategy, and this year we have taken great strides in implementing it.

Quality, style, design
Details matter. Our well-received Womenswear relaunch last September was about ensuring that every feature of our garments demonstrated improved quality. We introduced more noble fabrics, upgraded our seams to give a neater finish and introduced more innovation.

Quality, desirability and confident style are at the heart of all we do. As the country's biggest clothing retailer, our shoppers expect nothing less. These attributes have been reflected in our new store format and our successful 'Leading Ladies' marketing campaign.

We have listened to customers. In response to their feedback, we have improved availability of smaller sizes and 83% of our dresses have sleeves. We have also introduced Dress and Coat shops into every store, from flagships to market town stores. This contributed to dress sales rising 78% and coat sales rising 29% during the year.

Clearer brands
Customers found our sub-brands difficult to shop. So we refined them to give them more distinct personalities. We launched M&S Collection, which replaced M&S Woman and became an umbrella brand for our Classic and Limited ranges. In streamlining the brands, we reduced product overlap by 10%. Our sub-brands are now more relevant to our customers, who are far clearer about what they stand for.

Our Limited range of trend-led fashions and our casual Indigo range both had fantastic years, with sales up 64% and 21% respectively.

We extended our commitment to British clothing and manufacturing with the launch of our Best of British collection. Every item is designed and made in the UK, celebrating the best in domestic design and craftsmanship.

In Menswear, we also introduced a tailoring service in our Marble Arch store, which will be rolled out to other stores. Men's suits now take in price points from £50 to £799, demonstrating our breadth and choice.

A strong team
We have significantly bolstered the senior GM team that work alongside me and Belinda Earl, our Style Director, and made key appointments to our product, buying and design teams to ensure that we have the right talent in place to take us forward. We have also made additions to our supply chain team overseas, including appointing two new Sourcing Directors. Based in Hong Kong, they oversee our GM sourcing in the region and will increase our direct sourcing operations as we look to speed up our supply chain and improve margins.

General Merchandise highlights

GM revenue
£4.1bn
→ Level

Womenswear market share
9.7%
↓ 0.4% pts

Lingerie market share
27.1%
↑ 0.3% pts

Menswear market share
11.6%
→ Level

Kidswear market share
6.4%
→ Level

Lingerie
As the market-leader, our share of the Lingerie market is three times that of our nearest competitor. Our collaboration with Rosie Huntington-Whiteley remains the best-selling Autograph line in the sub-brand's 14-year history.

"M&S is great quality at a good price and the recent ranges are so much more stylish."
M&S Customer Feedback

M&S Studio @ Fashion Street

We opened a new creative space in the heart of London's Shoreditch at the British School of Fashion, giving our design teams a vibrant new location where they can draw inspiration for new capsule collections, like our Best of British range, and develop innovative ideas.

A Listening to our suppliers

We now survey 22,500 workers in our clothing supply chain in India, Sri Lanka and Bangladesh four times a year via their mobile phone keypads, and ask local-language questions on issues including working conditions and job satisfaction.

This year's innovations

- The No Peep design on our women's shirts has a hidden placket and concealed extra button to prevent gaping.
- Hi Heel Hosiery features a secret pad to relieve foot pain from wearing heels all day.
- Our Gym Slim range gently flattens and flatters to help increase confidence in the gym.
- Our Easy Close Ultimate Non-Iron school shirts feature riptape fastenings to help younger children get ready for school.

The interactive Home

Our new Home store concept transforms the way we display products and features a host of interactive services on giant tablets. The 70 stores with the new Home concept are seeing sales 10% ahead of the rest of the estate.

Our plan for the future

- We will continue to build on our design and quality credentials, with the ongoing improvement of our sub-brands.
- We will improve ranging to ensure we are offering our customers the best choice at all of our stores, as well as online.
- We will improve efficiency and availability through changes to our supply chain and systems.
- We will work to improve margins by building our design, trading and sourcing capabilities.

Availability

As part of an ongoing overhaul of our systems, we have changed how we send clothing to stores. We now centrally manage and replenish stock, which has led to GM availability improving by 2.3%. We will now begin implementing new GM systems that will support our growth plans for the next decade.

A Trust, traceability and ethics

Our customers trust us to source our clothing ethically and we want to have the best supply chain traceability of any retailer in the world – we're delighted to have recently been named the UK's most ethical High Street Clothing retailer. We are working with the Better Cotton Initiative and WWF towards 50% sustainable cotton and have committed to having traceability on all principal raw materials by 2020.

We regularly revisit our policies to make sure they adhere to our Plan A goal to always do the right thing. Following customers' concerns about the production of angora wool, we conducted additional visits to the farms our suppliers buy from. We found no evidence that our strict animal welfare policy had not been adhered to. However, we investigated the possibility of moving to a free range model and found this was not feasible, so we stopped selling products containing angora wool and have completely removed it from our supply chain.

R Listening to customers

We recognise the importance of listening to our customers to ensure that we continue to provide the products they want. Every month, we survey 55,000 shoppers to help understand how our customers think and encourage our shoppers to share their suggestions with us.

Food

Trust and innovation

Steve Rowe
Executive Director,
Food

Overview

Our mission in Food is simple: to delight and excite our customers with high quality, good value products. We have had a very strong year, with sales up 4.2%. The Food division has seen 18 quarters of positive like-for-like sales growth and our customer satisfaction ratings are at an all-time high. During the Christmas period, our market share peaked at 4.7%. Although inflation is falling and there are signs of economic recovery, consumers' budgets remain under pressure. Equally, customers have told us they still want a touch of adventure in the food they eat, and they want to treat themselves on special occasions. We have made M&S food more relevant to our customers, more often. Our promotions are well targeted and our shelves are stocked with new and exciting foods that customers love.

An extensive range

With a catalogue of over 6,400 products, we offer everything from everyday essentials to special occasion food. This year, more people turned to us to help deliver Christmas and we saw record sales. We had more festive show-stoppers than ever before, and the 800 new Christmas products included our Sugar Plum Christmas Pudding, with its hidden centre of Armagnac-soaked plums. With a 38% market share, we are the established market leader in party food and sold 5.5 million packs during the festive season. At the same time, our Simply M&S range of everyday essentials continues to grow – accounting for 11% of total sales.

Choice and convenience

We are a food specialist, not a supermarket. Our products are made exclusively for M&S and this unique position means they are not comparable with the rest of the market. Rather than joining the race to the bottom on price, we can focus on developing top-quality ranges that are competitively priced, whilst ensuring our farmers get a fair deal too. Stand-out promotions, like our 3 for £10 on meat and fish and 3 for £6 on deli items, offer customers M&S quality at outstanding value.

The market dynamics are working in our favour. People are shopping more locally and more regularly – 41% of our Food customers shop 'for tonight'. We have introduced more products to more stores, and around 110 stores now stock our full range – M&S customers don't have to sacrifice choice for convenience. The result is that we are seeing more customers shop with us more often. We are growing significantly faster than the overall food market and we plan to open 150 new M&S Simply Food stores over the next three years.

Innovation

Our innovation is unrivalled – 20% of our products were new this year. Our team of 35 product developers scour the world for exciting new products. This year, we have introduced customers to the Achacha, a Bolivian tropical fruit, and the Tiddly Pomme, the world's smallest apple. We also became the first major UK retailer to sell wine from Macedonia and Georgia. We expanded our healthy food offer with Delicious & Nutritious, a range of salads and flatbreads inspired by Middle Eastern and Asian flavours. And in a nod to the American trend, our Grill range included Posh Dogs barbecue hotdogs, which were a summer hit, selling 926,000 units.

Food highlights

Food revenue
£5.1bn
↑ 4.2%

Market share
3.9%
↑ 0.1% pts

Number of new lines
1,643

From rice wine to pickle brine
Our experts have hand-picked over 100 international food brands for us to sell exclusively at M&S, from fragrant Japanese rice wine to American pickles in brine that doubles as a marinade.

"I trust M&S food completely and they are always coming up with exciting new things."

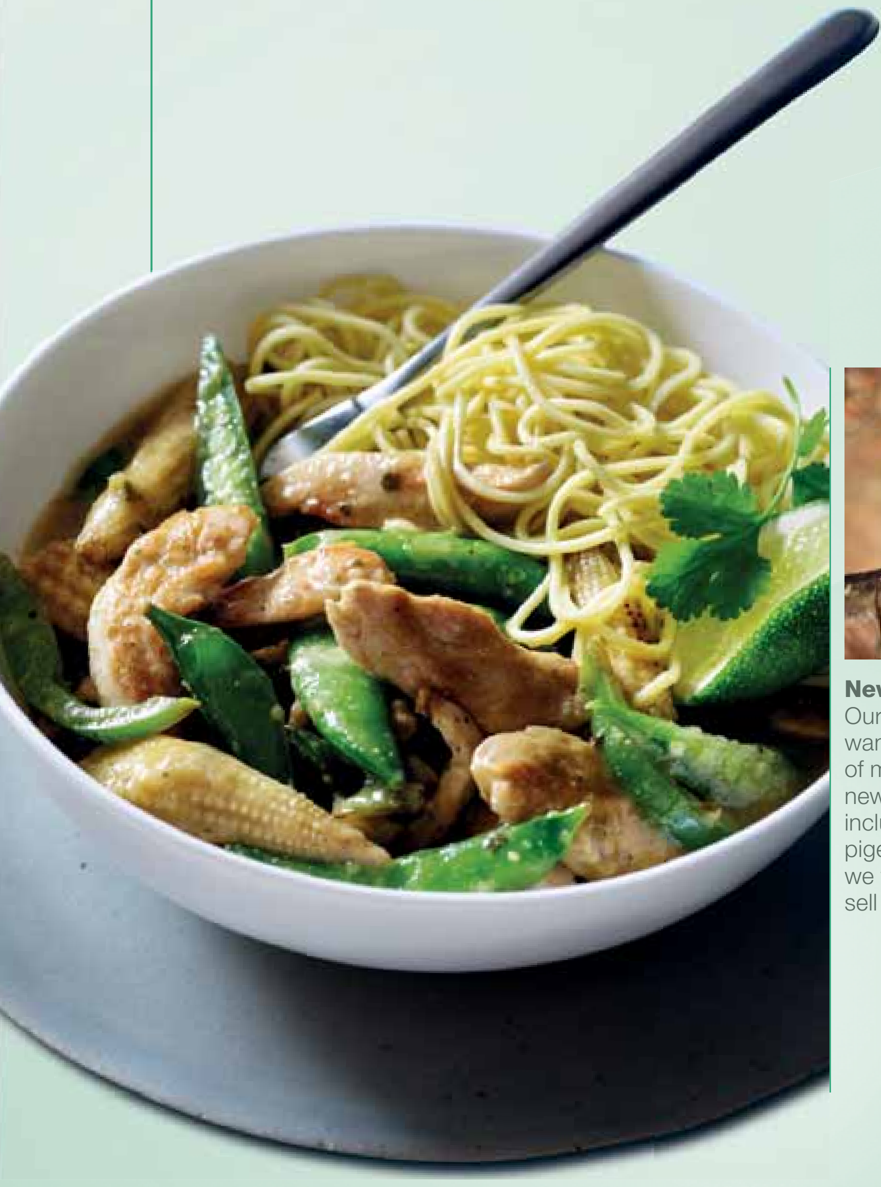
M&S Customer Feedback

Shoppers love to Dine In
Our Dine In deals, offering restaurant-quality food at home, remain popular, with 800,000 couples enjoying our £20 Valentine's Day menu.

800,000

Popular products
As the nation celebrated the birth of the future king, our Prince George commemorative biscuit tin was in our stores within 24 hours of his name being announced. We sold

223,000



New ranges
Our customers told us they wanted to try a wider variety of meats, so we launched a new range of game, which included rabbit, wood pigeon and pheasant, and we were the first retailer to sell whole wild red grouse.

A

Supporting British farmers

- Milk Pledge Plus guarantees a fair price to our farmers, and rewards them for their animal welfare standards.
- We donated £150,000 to support farmers in the flood affected areas, and commissioned a review of the impact on British farming, led by Sir John Beddington.
- Farming for the Future, run with our suppliers, helps young people get into farming.

Our plan for the future

- We will accelerate the opening of standalone food stores, both in the UK and overseas.
- We will continue to develop new and exciting products, including frozen recipe dishes for the first time.
- Our store environments will continue to improve, with more theatre and the roll-out of our Tasting Kitchens.
- We will extend our dominance in healthy eating categories.

Suppliers
We have embarked on a number of projects to restructure our supply base, aimed at improving our efficiency and our margins without compromising product quality. One of the projects ensures we utilise our factories better, while another is a review of our processes. We are making progress on efficiency; over the year availability rose by seven percentage points.

A Doing the right thing
Ninety of our suppliers have already signed up to create more vocational training and work experience placement opportunities for young unemployed people. In turn we are asking them to extend the call to action to their own suppliers, therefore creating a multiplier model through the supply chain. We continue to develop innovative packaging aimed at reducing our footprint, and we were the first retailer to offer 100% 'water free' packaging for all flower bouquets bought online. Not only will this save over 500,000 litres of water a year, but each bouquet takes up 25% less space, so we can deliver more flowers using fewer lorries.

R Trust and provenance
Trust is key to us, and we know the importance of provenance to our customers. We were the only major retailer to be untouched by the traceability issues surrounding the horsemeat issue and pride ourselves on being able to trace our meat back to the field in which the animals were reared – our meat is tested to check breed and lineage, not just species. Each year our product audit team tests 20,000 products, checking the provenance of everything from olive oil to Manuka honey.

UK stores

Inspiring our customers

UK stores highlights

Total UK portfolio
798

Premier
12

Major
59

High Street
232

Outlet
48

M&S Simply Food (owned)
185

M&S Simply Food (franchised)
262

UK average weekly footfall
19.5m
↓ 2.9%

Overview

Our priority over the last year has been to ensure that we offer the very best shopping experience to the 20 million people who shop with us each week. We know that our stores must inspire and impress everyone who enters them. But we also know that we don't have long – the average customer shopping in our Womenswear department spends 24 minutes in store. That's why we have improved the look and feel of our stores, sharpened up our merchandising and improved our levels of customer service.

Store portfolio

As the high street evolves and technology continues to change shopping habits, we have focused on maximising the convenience and effectiveness of our space.

Our roll-out of M&S Simply Food stores enables us to grow market share while gaining a presence in towns where we are under-represented. We opened 11, taking our total number of wholly-owned M&S Simply Foods to 185.

We also opened a number of larger full line stores on retail parks, including Durham, Bexhill and Fareham in Hampshire. Store openings and extensions added 260,600 sq ft of space.

Technology means that we can extend the product catalogue of all our stores, whatever their size. Our popular Shop Your Way service enables customers to use all of our owned stores as order and collection points for our entire product range. Some 321 stores are equipped with 1,500 iPads™ and 40,000 store employees have the skills to sell from our new website to maximise selling opportunities.

New concept stores

We have focused on retailing basics to help create uncluttered stores in a two-phase modernisation programme.

Phase one is now complete, and we are currently implementing the second phase. Our top 70 stores now have refreshed Womenswear departments, and we are introducing revamped Footwear, Menswear and Beauty departments.

By introducing high-impact entrance zones highlighting the latest trends and most popular lines on catwalk-style displays, we are inspiring our customers from the moment they enter. We are showcasing our food better in store, bringing theatre to our Food Halls with cooking demonstrations and Event Zones.

We have improved the presentation of the clothes on display and given them more space. Our sub-brands are complementing, rather than competing with, each other, helping our customers find what is right for them. Within M&S Collection, we have created a distinct edit of each of our hero departments. Our new look Coat, Dress and Skirt shops have proved very popular, as has the Cashmere shop, which we introduced to 225 stores this year and is now in a total of 335. We know that seven out of 10 women shop alone and our customers have told us they are looking for helpful advice and guidance about purchases. We have ensured our displays are coordinated and well-accessorised with bags and shoes, and there are more mannequins and outfit suggestions on display throughout the store.

Service

Our customers tell us that they want to be served by engaged and knowledgeable employees when they shop at M&S, which is why we have increased training.

"I like the space and displays – it's so easy to find the outfits within each of the brands."

M&S Customer Feedback

Over 60,000 assistants have completed our Notice Me programme, aimed at giving customers the personal touch. Around 10,000 Womenswear employees

An M&S welcome
The new Welcome Zones in our stores aim to inspire customers from the second they walk in. The areas showcase the latest trends and our most popular lines.

PACK
We have developed four key priorities for our stores that underpin the changes we are making: Presentation, Availability, Cross-selling and Service, and Knowledge. 'PACK' is also central to our employee training programme.

Customer satisfaction
In its first year, around 680,000 shoppers filled out our weekly in-depth satisfaction survey. They tell us they are noticing and liking the differences in our stores.

680,000

Love Shwopping
As part of our popular Shwopping initiative with Oxfam, over the last two years our customers and employees brought a total of 7.8 million items of clothing into our stores to be resold, reused or recycled, worth £6.1m.

£6.1m

How our stores use technology
- Our Shop Your Way service gives our customers flexibility, whether they are ordering products at home for collection in-store or using our Browse and Order in-store screens for home delivery.
- Technology has enhanced our In Touch initiative, ensuring our store employees are better connected and informed.
- Through our Knowledge to Share app, customer-facing employees can improve their know-how of M&S products.

Our plan for the future
- We will continue to roll-out our new store format. Refreshed Menswear departments will be in our top 70 stores by Christmas, while new Beauty departments will reach another 100 stores.
- Shoppers can expect to see new products in-store more often.
- We will ensure that the quality of our space improves as high streets evolve and technology changes shopping habits.
- We plan to open around 368,000 sq ft of new owned space in 2014/15.

attended our inaugural Fashion Camp last summer to learn about the changes we had made, and the second phase of this training will take place this summer. Internal communication has also improved. We introduced a new app for our retail team to use on store visits to ensure we are always looking at our stores from a customer's point of view. By collating feedback for the store manager on presentation, availability, service and knowledge, we can be sure customers get a consistent experience.

The work going on behind the scenes to overhaul our supply chain has given store employees more time to serve customers. Moving to a push allocation system, whereby stock is replenished automatically, has freed up salesfloor employees while also leading to improved availability and fewer mark-downs.

Sustainable stores and engaged employees
In the seven years since it launched, Plan A has become part of the rhythm and routine of our store development programme. We are currently piloting four sustainable M&S Simply Food stores and are introducing aspects of our Cheshire Oaks store – one of the world's largest green stores – into new openings. Throughout M&S, employees remain actively involved with local charities. In September, all our Cafés and Food Halls took part in Macmillan Cancer Support's 'World's Biggest Coffee Morning', contributing £800,000 of the total £1.2m M&S helped raise for the charity this year.

M&S.com
Transforming our business

M&S.com highlights

Sales
£800.1m
↑ 22.8%

Weekly site visitors
5.5m
↑ 7.8%

Mobile and tablet sales increase
99.4%

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

Overview
This has been a landmark year for M&S as two world-class infrastructure projects went live: our new M&S.com website and our 900,000 sq ft distribution centre at Castle Donington. Both developments represent major milestones on our journey to becoming an international, multi-channel retailer. They also highlight the rapid pace of change that is running through M&S. As we completed this transformative work, we continued to see a very strong performance from our website, with sales rising 23%, ahead of the market. Our online business now accounts for 16% of our General Merchandise sales, up from 13% last year, and we have over 5.5 million visitors to our UK site each week. Our multi-channel strategy focuses on meeting customers' needs as shopping habits change and technology evolves. Multi-channel shopping presents us with enormous growth opportunities and we will put our customers at the heart of our offer as we adapt and change. Whether customers are shopping in-store, online or with tablets and mobiles, we want to offer them an inspiring, convenient and service-driven experience.

Our new flagship
M&S.com is our 'flagship'; not just our biggest store, it is also the best expression of today's M&S and a 24/7 window to our products and style perspective. The industry-leading site, which went live in February, was built around the customer, following over two years of development and testing.

As well as including an improved search function, better browsing options and product images that are 50% bigger, the site brings our brand to life with bold imagery and regularly updated editorial content. We have also introduced a range of interactive services to create a richer buying experience. We are providing clearer, more consistent product information and offering a better view of stock availability, which is refreshed every 15 minutes and live at checkout, ensuring customers can buy with confidence.

Unlike the previous website which ran on an Amazon platform, M&S.com is now wholly run by us, giving us complete control over presentation and delivery options.

Each of our customers shops our website in a multitude of ways, whether they are buying something via their desktop computer or browsing on a tablet at home. We have designed the site to be flexible and to cater for their many needs, both now and in the future.

Feedback about M&S.com from customers and industry experts has been extremely positive.

The website has been built to allow us to make continual improvements as our business develops, flexing and adapting to future requirements and our customers' needs.

Castle Donington
The new website is only half of the story — it is backed up by our new distribution centre at Castle Donington, which opened in May 2013.

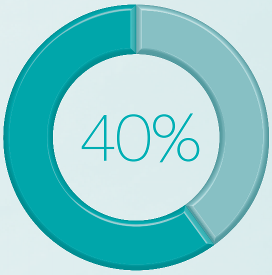
The fully automated centre will build its capacity ahead of peak trading this Christmas, when it will be capable of processing 750,000 items a day.

Castle Donington forms part of our ongoing plan to replace 110 smaller warehouses. This move to a single-tier network will provide us with a modern, flexible infrastructure designed precisely for our needs.

Style Adviser
Our Style Adviser service allows customers to create a personal online profile. Once created, they will be treated to recommendations to suit their shape, style and personality.

Growth opportunities
We know that we can significantly increase the number of people who shop via M&S.com. Of the 34 million people who shop in our stores every year, around 6.7 million also shop using our website. Whilst 8.3 million of our customers do not shop online at all, that still leaves over 19 million M&S customers who shop online but are yet

Shopping by outfit
With around 40% of our customers shopping for outfits, the new site has a number of features to help them put these together. These include 'Style With' recommendations, where shoppers can browse by trend, occasion or as a personalised recommendation.



A strong point of view
M&S.com is about more than selling our products – it is about sharing our point of view. Our specialist editorial team provides stimulating content on the website's Style & Living editorial hub.

Kalverstraat
Our 'bricks and clicks' multi-channel strategy extends overseas. We opened a new concept store showcasing our latest digital innovations on Kalverstraat in Amsterdam, which features the world's first Virtual Rail.

Taking the tablets
- Just under 30% of our online sales are made through iPads™ and other tablets, up from just 5% two years ago.
- The peak time for tablet usage by our customers is between 8pm and 9pm.
- We've launched a dedicated tablet platform and updated versions of all our mobile sites and apps. We will continue to develop these as shopping habits evolve.

Our plan for the future
- Our delivery times will become faster as we continue to leverage the efficiencies of Castle Donington.
- We will continue to foster in-house innovation through our Digital Lab, seeking to develop first-to-market e-commerce technologies.
- We will continue to edit M&S.com and publish inspirational content, refining and extending the site's content to meet people's changing needs.
- We will continue our international growth through both local language sites and deliveries from M&S.com.

to shop online with us. They represent our biggest opportunity for growth. New websites can typically take some months to settle and we deliberately slowed down marketing activity during the launch period. This was reflected in the post-launch performance during Q4. As our website settles in the coming months, we aim to build growth again and we are well set up to capitalise on this opportunity.

But the site is not merely an extra channel, it is also a way of increasing loyalty and spend per head: customers who shop both online and in-store spend significantly more with us, appreciating the extended hours and reach of the internet, alongside the social and traditional shopping experience of our stores. It is therefore a crucial tool for driving sales.

A Doing the right thing
M&S.com now includes a range of symbols that highlight products with Plan A qualities, for example where a product is Fairtrade or uses sustainable materials, helping customers make informed decisions. In partnership with Remploy, we recruited over 110 of our Castle Donington employees through Marks & Start Logistics, the extension of our Marks & Start employability scheme, which helps people with disabilities and health conditions into work.

R Business resilience
With M&S.com, we have migrated from the third-party Amazon platform to our own, bespoke platform, which puts us fully in control of how the site functions and evolves. Our 24/7 command centre constantly manages the customer experience from end-to-end and ensures the site runs smoothly at all times.

International

Growing our presence overseas

International highlights

International revenue

£1.2bn

↑ 6.2%

Stores

455

↑ 37 net new stores

Territories

54

↑ 3 new markets

Overview

Over the year, sales in our International business rose by 6.2% to £1.2bn, driven by strong growth in our priority markets of India, Russia, China, the Middle East and Western Europe. We opened 55 new stores, and now trade from 455 stores in 54 territories. Our strategy remains one of delivering capital-light expansion in a manner appropriate to each individual market, whether through franchise agreements, partnerships or wholly-owned stores. We aim to offer our customers consistent store environments wherever in the world they shop. We also carefully edit our product ranges to suit each market.

A strong, international team

We have structured our international team to give us a better understanding of our markets and better control of our product catalogue. The team has focused on improving the responsiveness between our overseas stores and the UK.

Today's international leadership team has a stronger overseas background than in previous years. Between them, the team speak 14 languages and have worked in 32 markets.

Priority markets

Our performance in Asia remains strong. We continue to grow ahead of the competition in India, where we saw double-digit like-for-like growth. Over the year, we opened 10 Indian stores through our partnership with Reliance Retail, taking our total number of stores to 38. In November, we announced plans to double our Indian presence by 2016, which will make it our biggest international market.

Our operation in China is moving in the right direction, although the performance of our 15 stores has been mixed. We saw strong results from our Hong Kong stores and our flagship Shanghai stores continued to perform well. In April, we announced plans to focus on our centrally-located Shanghai stores and to open flagships in other cities, including Beijing and Guangzhou. We also announced plans to find a local partner to support this roll-out – in a country as diverse as China, local knowledge and experience is key.

Sales in the Middle East grew by 2.6%. In February, we unveiled our largest international store, a 72,000 sq ft flagship in Kuwait. This year also saw our first store in Lebanon and a new flagship in Cairo. All three stores were opened with our long-term franchise partner, Al-Futtaim Group, which operates 25 stores across eight markets. We also worked with another key franchise partner, FIBA, which operates 100 M&S stores, on the modernisation of our Europeyskiy store in Moscow. Overall, we aim to increase the proportion of our international revenue that comes from franchised stores, as part of our strategy for capital-light international growth.

The Netherlands and France were the focus of our European growth, where sales rose by 3.9%. We opened our largest continental European store in a prime location in The Hague, which includes an M&S Cafe and in-store Bakery. We also opened our fourth full line store in Paris in the Beaugrenelle mall, with our largest Food Hall outside of the UK and Ireland. Our presence in France will grow strongly. A partnership agreement with Relay France will see us open 10 Food stores at key travel locations in Paris by 2018, while our

Bricks and clicks

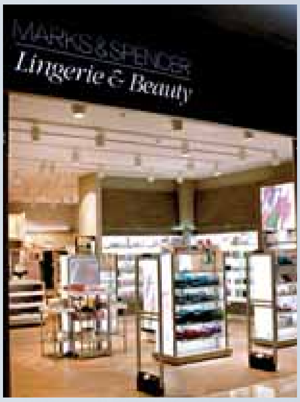
Our international 'bricks and clicks' strategy offers customers the best of online and physical retailing. Our eight European websites have high conversion rates, while our site on TMall in China receives positive customer service reviews.

"M&S Den Haag is a beautiful store, with an even better Food Hall and the clothes are lovely."

M&S Customer Feedback
Twitter

Bandra
In November, we opened our largest store in India in Bandra, Mumbai. Ranges in the 35,000 sq ft store include our exclusive Savile Row Inspired collection of men's suits.

35,000 sq ft



Lingerie and Beauty
We opened our first standalone Lingerie & Beauty store in Saudi Arabia with our long-term franchise partner, Al Hokair.

A UNICEF
We launched our first ever co-ordinated fundraising challenge with UNICEF to raise money from our international stores.

unicef

International tastes
- We have expanded our fresh food offer so customers from Prague to Hong Kong can buy fresh M&S food daily.
- We will open around 20 Food Stores in Paris over the next three years which will make France our largest food market outside the UK.
- We sell more clotted cream in our Kalverstraat Store and more crumpets and curries in our Beaugrenelle, Paris, store than anywhere else in our global store network.

Our plan for the future
- We will open 250 international stores over the next three years focusing on priority markets: India, China, Russia, the Middle East and Western Europe.
- We will strengthen our relationships with existing franchise partners and build relationships with new ones. 60% of openings over the next three years will be franchise stores.
- We will expand in Western Europe with a 'bricks and clicks' approach by opening flagship stores, supported by Food stores and an online offer.

partnership with SFH Invest will see over 20 stores open by 2021.

Sales improved in the Czech Republic and Greece following action to address the stores' performance. We are reviewing our store portfolio in Central and Eastern Europe to ensure we are in the right locations in key cities. After a strategic review of our stores in the Republic of Ireland, where the economy remains challenging, we took the difficult decision to close four. We remain committed to the business and will invest in our remaining stores, and open a new flagship in Limerick in 2016.

A Doing the right thing
Due to our broad reach, we can't take a 'one size fits all' approach to Plan A across all our territories. So we adapt it to suit local markets. By establishing a minimum set of criteria in each location, we can work towards our environmental and ethical goals in a realistic way with local partners. Some of our leading campaigns, like clothes recycling, will be rolled-out internationally. Our employability programme, Marks & Start International, runs in certain stores and suppliers' factories overseas.

R Strong partnerships
We know that the infrastructure in some of our emerging markets and the challenges of entering new markets could affect our ambition to be a leading international, multi-channel retailer. Local knowledge and strong partnerships are therefore essential. That's why we work closely with our trusted overseas partners, who know the markets and can take decisive action should problems arise.

Our people

Engaging our employees

Our people highlights

Average number of employees*

85,813

Employee engagement score

80%

Training and development days

1.5

per customer assistant

*This figure represents the average total number of employees throughout the year and accounts for seasonal fluctuations.

Overview

Our people are at the heart of what makes M&S different. As we continue to transform the business, we have worked hard to ensure that we have the capabilities in place to drive the company forward. We have continued to make sure that our 86,000 employees throughout the business are confident, engaged and knowledgeable. As the retail landscape evolves, we continue to train our colleagues in the latest digital developments in retail. But despite changing shopping habits, we know that customers still want the personal touch. That's why our store employees are as dedicated as ever to providing exceptional levels of customer service.

An engaged, positive team

It is crucial that all our people understand our priorities and objectives, and that they are engaged with the ongoing transformation of the business. Our annual 'Your Say' survey shows we are achieving this – levels of engagement among our employees grew by 2% on last year to 80% and our overall positivity score also rose compared to last year. Meanwhile, 95% of our employees said that they regularly look for ways to better serve our customers.

An increasing number of store employees said that their store managers are making more time to keep them informed about the Company's overall performance and plans. This fits in with our belief that knowledge bolsters confidence, which in turn leads to increased levels of customer service and employee motivation.

Our 'Your Say' survey was conducted online this year for the first time, making it easier for our international colleagues to participate. We were pleased that the response rate rose by 2% compared to last year following this change.

Bolstering our capabilities

As technology continues to change the way that our customers shop, we are building our in-house skills to ensure we have the capabilities to evolve with the retail landscape. We have also actively looked to recruit people from outside the company with skills to suit the new environment. From designers to online editors to copywriters, we have substantially bolstered our digital team. For example, the recent launch of M&S.com saw us create a 50-strong software development team. Our 2014 Graduate Scheme and Business Placement Programme offered over 200 opportunities across our stores and office locations, and our IT software engineer scheme was one of our biggest graduate programmes for the second year running.

We also enhanced our leadership team with a number of senior appointments and around two-thirds of our top 100 managers have international experience.

Transformation

As part of the ongoing transformation of M&S over the last year, we looked at how we could become more connected with each other and with our customers. Over 60,000 of our store colleagues have been involved in the 'Notice Me' programme to continue to improve the in-store customer experience. The majority of our senior leaders have also attended development days to support them in leading the way in a multi-channel, international business and responsible leadership.

A Youth employment

Youth unemployment remains one of the biggest social issues that the UK faces. That is why this year we have provided over 1,450 16-25 year-olds with vocational work experience through our

GM Apprenticeships

To build a pipeline of future talent we have taken on nine GM technologist apprentices. They split their week between M&S and Fashion Enter, one of our clothing suppliers based in London.

"The most valuable and truly lasting thing I've gained is self-belief. Make Your Mark has proved such a lifeline for me and I would strongly recommend it."

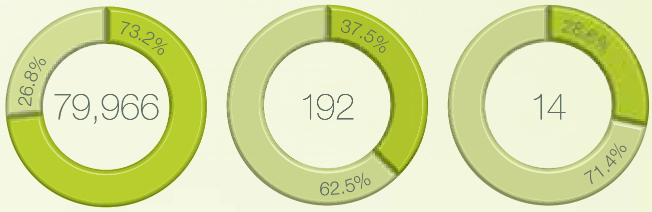
Hannah Fallis
Trainee Visual Merchandiser, M&S Omagh

Employee diversity as at year end

Total employees
Female 58,552
Male 21,414

Total Senior Managers
Female 72
Male 120

Total Board
Female 4
Male 10



A BIKE 24
1,300 employees participated in BIKE 24, a 24-hour charity cycle event, and a further 60 cycled from 'Arc to Arch' – from our Champs Elysées store to our Marble Arch store. They raised £942,000 for five charity partners.

£942,000

Staying connected
- Our employees have access to Yammer, an internal social network, which allows them to ask and answer questions, join groups and post comments.
- We keep our employees informed about which products have made the headlines through our weekly press summary that goes to all our stores.
- Our In-Touch programme includes weekly video downloads to help employees stay in touch with what's happening across the business.

Inspiring Women's Network
One of our non-executive directors, Martha Lane Fox, the co-founder of lastminute.com, spoke at the launch event of our women's leadership network, which aims to inform and inspire our people.

Our plan for the future
- We will drive a performance culture by continuing to nurture talent within M&S, as well as recruit skilled people from outside the business.
- As digital technology continues to change the way that people shop, we will train our employees with the relevant skills needed to serve customers.
- We will continue to embed clear, core M&S values across our business.

new Make Your Mark scheme. The four-week programme, which we launched last summer in partnership with The Prince's Trust, aims to fill the skills gap that prevents so many young people from finding work.

Make Your Mark was inspired by our Marks & Start employability scheme, which has helped 6,000 people take their first steps into the jobs market since it launched a decade ago. Our pioneering approach has also been mirrored in the launch of a scheme, Movement to Work, which M&S is part of along with 14 other companies.

A Supporting our communities
Helping in the community is a key strand of Plan A. To this end, we offer all our employees one day's paid time off so that they can take part in volunteer activities. Last November, 600 IT employees from M&S and our suppliers joined forces to take part in one of the biggest ever volunteer programmes in the IT industry, training IT Ambassadors in schools and helping elderly people enjoy the social benefits of getting online. In April, thousands of employees and customers took part in our annual Big Beach Clean-up, which cleared litter from 140 UK beaches and canals. During the day, which was run in partnership with the Marine Conservation Society and the Canal & River Trust, we cleared 25 tonnes of litter, equivalent to 3,969 black bags.

Financial review

Alan Stewart
Chief Finance Officer

Throughout the year, M&S has performed satisfactorily in a challenging marketplace. We delivered sales of £10.3bn, 2.7% ahead of last year. In 2013/14 our underlying profit was £623m, down 3.9% on last year, with underlying earnings per share at 32.2p, up 0.9% on last year.

Whilst the transformation of M&S to an international, multi-channel retailer has progressed, we have addressed the short-term market challenges through prudent financial management.

During the past year the retail landscape has been highly promotional and this environment impacted our General Merchandise margin. Whilst we were required to respond to the marketplace, we worked hard to mitigate the impact through markdown clearance. Within Food, we have offset commodity price increases through effective promotional activity, increased volumes, and by working closely with our suppliers to deliver further efficiencies.

Over the course of the year, our UK operating costs have been well managed, up 3.5% against last year.

Investing in our future

In line with our strategic ambitions, we have seen strong growth in both our International and M&S.com businesses. M&S.com delivered sales of £800.1m, up 22.8% on last year. In International, we saw sales reach £1.2bn, up 6.2% on a constant currency basis. Despite new store opening costs within our owned businesses, International operating profit increased 4.6%.

This year we added 1.8% new UK selling space and expect space to increase by 1.0% in 2014/15. This growth will be focused on our successful M&S Simply Food format and there will be no net new space in GM.

Last year, we stated that 2013/14 was the final year of significant capital expenditure. Through prudent management we saw capex this year of £710m, behind previous guidance of £775m. Over the last three years, we have invested to transform M&S – to drive reappraisal of our brand and create a strong and efficient platform to drive sustainable long-term growth. However, from 2014/15 we expect capex to fall to c.£500m to £550m per annum.

Creating an agile infrastructure – fit for the future

2013/14 has been a landmark year in the transformation of our infrastructure and operational capabilities. In February 2014, we completed the transition from Amazon to an M&S-owned platform. The site has been built on a flexible technology platform to enable continual improvement in line with changing consumer and technology trends. This agile infrastructure, coupled with increased in-house software development capabilities, will allow efficient evolution of the site and help avoid future peaks in capital investment.

Since its launch in May 2013, we have been building capacity at our major distribution centre at Castle Donington. As we continue to increase activity ahead of the peak Christmas trading period, we will deliver further improvements to our delivery proposition.

This is underpinned by the work we are doing to simplify our IT and management systems and create a best-in-class supply chain from end-to-end. The restructure of our supply chain has made us a more efficient business, ensuring M&S is well set up for the future retail landscape.

Dividend policy and capital structure

The Board is committed to a progressive dividend policy with dividends broadly twice covered by earnings. The Board is also committed to an investment grade rating, and intends to operate with a net debt/EBITDA ratio within the range 2.0x–1.5x.

Strengthening our financial position

In line with our commitment to maintain an investment grade credit rating and a progressive dividend policy, we have funded our investment through existing cash flows.

We have maintained a strong balance sheet, improving our net debt position to £2.46bn, down from £2.61bn last year. Over the course of the year, we have seen the Group's average cost of funding improve to 5.4%, down from 5.9% last year. Fixed charge cover is 3.4 times, broadly level with last year. This gives significant headroom compared with 2.75 times required by the covenant on our bonds.

Sustainable reporting

M&S has long been an advocate of the value created through sustainable business practice. Through our commitment to Plan A – our eco and ethical plan – we have adopted more efficient processes and created new revenue streams, and this year have delivered a net benefit of £145m, which has been invested back into the business.

As members of the International Integrated Reporting Council and members of the Prince's Accounting for Sustainability Project (A4S) CFO Leadership Network, we are committed to sustainable reporting principles and embedding sustainability into decision making. For example, this year we have included further information about the broader value outputs created through M&S's business activities within our business model on page 6. This includes our 1.5 days worth of training received by every customer assistant through to details of our total cash tax contribution to the UK Exchequer. For 2013/14 our contribution was £831m; split between taxes borne by the company of £372m, and taxes attributable to our economic activities collected on behalf of the government of £459m.

marksandspencer.com/corporate

Our plan for the future

- With our last significant year of capital investment behind us we believe we have created a strong and agile platform from which to grow efficiently.
- We have shared plans to deliver progressive improvement in margin over coming years.
- Through this activity we will improve our free cash flow.
- We are targeting a net debt/EBITDA ratio within the range 2.0x–1.5x.

Summary of Results

	52 weeks ended 29 March 2014 £m	30 March 2013 restated* £m	% variance
Group revenue	**10,309.7**	**10,026.8**	**+2.8**
UK	**9,155.7**	8,951.4	+2.3
International	**1,154.0**	1,075.4	+7.3
Underlying operating profit	**741.9**	**778.6**	**-4.7**
UK	**619.2**	658.4	-6.0
International	**122.7**	120.2	+2.1
Underlying profit before tax	**622.9**	**648.1**	**-3.9**
Non-underlying items	**(42.5)**	(100.9)	
Statutory profit before tax	**580.4**	**547.2**	**+6.1**
Underlying basic earnings per share	**32.2p**	**31.9p**	**+0.9**
Basic earnings per share	**32.5p**	**28.3p**	**+14.8**
Dividend per share (declared)	**17.0p**	**17.0p**	

*The Group has adopted the revised IAS 19 'Employee Benefits' which has retrospective application and has resulted in the restatement of last year's results (last year reported underlying profit before tax £665.2m and statutory profit before tax £564.3m).

Revenues
Group revenues were up 2.8% (+2.7% on a constant currency basis), driven by good performance across both the UK and the International business.

UK revenues were up 2.3% in total with a like-for-like increase of 0.2%. We added 1.8% of space, 1.6% in General Merchandise and 2.3% in Food, on a weighted average basis.

International revenues were up 7.3% (6.2% on a constant currency basis).

Operating profit
Underlying operating profit was £741.9m, down 4.7%.

In the UK, underlying operating profit was down 6.0% at £619.2m. Gross margin was down 20bps at 40.6%. General Merchandise gross margin was down 110bps at 50.7% as a result of increased markdown and promotional cost due to the highly competitive market during the year. Food gross margin was up 80bps at 32.5% due to supply chain efficiencies and effective management of promotional activity more than offsetting commodity price inflation.

UK underlying results for the year include the previously disclosed double running costs, which were partially offset by credits in the year relating to changes in accounting estimates.

Underlying UK operating costs were up 3.5% to £3,159.6m. A breakdown of the costs is shown below:

	52 weeks ended 29 March 2014 £m	30 March 2013 restated* £m	% variance
Retail staffing	**978.8**	931.3	+5.1
Retail occupancy	**1,054.4**	1,030.7	+2.3
Distribution	**445.5**	405.1	+10.0
Marketing and related	**147.7**	155.3	-4.9
Support	**533.2**	530.4	+0.5
Total	**3,159.6**	**3,052.8**	**+3.5**

*Restated from the reported £3,049.8m as a result of adoption of the revised IAS 19 'Employee benefits'.

Retail staffing costs increased as a result of our investment in store staffing in order to improve customer service. In addition, costs were impacted by pension auto-enrolment, as well as growth in selling space and the annual pay review.

The increase on occupancy costs reflects new space, rent, rates and utilities inflation, as well as double running costs associated with the new M&S.com platform.

During the year we opened the new EDC/NDC, and in addition to the resulting double running costs, also saw distribution costs rise as a result of higher volumes in multi-channel and Food.

Marketing and related cost reduction reflects a decrease in the number and a change in approach to marketing campaigns in both General Merchandise and Food. Support costs increased due to salary and pension costs, as well as higher IT costs associated with the launch of the new web platform.

The underlying UK operating profit includes a contribution from the Group's continuing economic interest in M&S Bank of £57.2m (last year £51.1m).

International underlying operating profit was up 2.1% (up 4.6% on a constant currency basis). Franchise operating profits were up 7.4% to £114.2m, with improvements across all regions. Owned store operating profits were down 38.1% to £8.5m, due to start-up costs of new stores in priority markets including Western Europe and India, as well as continued macroeconomic pressure in the Republic of Ireland.

Non-underlying profit items

	52 weeks ended	
	29 March 2014 £m	30 March 2013 £m
Profit on property disposal	**82.2**	–
One-off pension credits (UK and Ireland)	**27.5**	–
Interest income on tax repayment net of fees	**3.3**	–
Restructuring costs	**(77.3)**	(9.3)
International store review	**(21.9)**	–
Fair value movement of embedded derivative	**(3.5)**	5.8
Strategic programme costs	**(2.0)**	(6.6)
Fair value movement on buy back of puttable callable bonds	**–**	(75.3)
Reduction in M&S Bank income	**(50.8)**	(15.5)
Total non-underlying profit items	**(42.5)**	**(100.9)**

The profit on property disposal relates to the sale of a warehouse site and mock shop in White City for a total consideration of £100m, with £25m received on completion and the remaining consideration deferred over three years. The property has been leased back to Marks and Spencer plc for a period of five years on an operating lease basis.

The one-off pension credit in Ireland of £17.5m has arisen as a result of changes to the Marks and Spencer Ireland defined benefit scheme rules. In the UK, the one-off pension credit of £10.0m has arisen as a result of ceasing to grant pension increases to transferred-in pensions for all members in the UK defined benefit scheme.

Interest income on tax repayment relates to a successful tax litigation claim and is presented net of related fees.

Restructuring costs relate to the Group strategy of transitioning to a one-tier distribution network and the associated closure costs of legacy logistics sites (£53.2m) and restructuring costs incurred in Ireland, including the closure costs of four stores and redundancies (£24.1m).

International store review relates to the impairment of assets (£13.6m) and onerous lease provisions (£8.3m) in poor performing international stores in non-strategic locations in China and the Czech Group.

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

Strategic programme costs are the cost of implementing the Focus on the UK element of the strategy announced in November 2010. We do not anticipate incurring any further costs in relation to this programme.

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, as previously announced. M&S Bank recognised a further estimated liability in the year.

Net finance costs

	52 weeks ended	
	29 March 2014 £m	30 March 2013 restated* £m
Interest payable	**(121.1)**	(125.3)
Interest income	**8.4**	5.3
Net underlying interest payable	**(112.7)**	(120.0)
Pension finance income (net)	**11.7**	7.1
Unwinding of discount on partnership liability	**(17.8)**	(16.6)
Unwinding of discounts on financial instruments	**(0.2)**	(1.0)
Underlying net finance costs	**(119.0)**	**(130.5)**
Fair value movement on buy back of puttable callable bonds	**–**	**(75.3)**
Interest income on tax repayment	**4.9**	**–**
Net Finance Cost	**(114.1)**	**(205.8)**

*Restated from the reported £191.7m as a result of adoption of the revised IAS 19 'Employee benefits'.

The net underlying interest payable was down 6.1% (£7.3m) at £112.7m as a result of a higher proportion of floating debt and lower cost of funding of 5.4% (last year 5.9%). Underlying net finance costs were down £11.5m to £119.0m due to an increase in pension interest income as a result of favourable movement in the net pension benefit.

Statutory profit before tax
Statutory profit before tax was higher at £580.4m (last year £547.2m) after a reduction in net non-underlying charges.

Taxation
The full year underlying effective tax rate was 18.8% (last year 22.7%) and statutory effective tax rate was 12.8% (last year 18.7%). The non-underlying adjustment to the tax charge principally arises from the successful outcome of litigation in relation to the Group's claim for UK tax relief of losses of its former European subsidiaries (£18.5m).

Earnings per share
Underlying basic earnings per share increased by 0.9% to 32.2p per share. Statutory basic earnings per share increased by 14.8% to 32.5p per share. The weighted average number of shares in issue during the period was 1,615.0m (last year 1,599.7m).

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	
	29 March 2014 £m	30 March 2013 £m
Focus on the UK	**138.2**	197.4
Multi-channel	**96.8**	75.3
New stores	**89.4**	94.1
Store modernisation programme	**25.0**	85.7
International	**69.0**	53.7
Supply chain and technology	**249.4**	247.2
Maintenance	**67.2**	67.9
Proceeds from property disposals	**(25.0)**	–
Total capital expenditure	**710.0**	**821.3**

We continued to invest in our UK stores in order to create a more inspiring environment. The first phase of the new store layout concept has now been completed.

Last year we completed the significant investment in improved multi-channel capabilities with the launch of our new web platform in February.

We added 1.8% of selling space in the UK (on a weighted average basis), trading from 16.6m square feet at the end of March 2014. We opened a net 32 new stores during the year, including 28 M&S Simply Food stores. In our International business, space increased by c.10%.

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. Our new EDC/NDC in Castle Donington opened in May.

Cash flow and net debt

	52 weeks ended	
	29 March 2014 £m	30 March 2013 restated* £m
Underlying EBITDA	**1,219.7**	1,241.8
Working capital	**47.9**	75.3
Pension funding	**(92.0)**	(70.9)
Capex net of disposals	**(616.6)**	(829.7)
Interest and taxation	**(175.2)**	(235.3)
Dividends and share issues/purchases	**(229.5)**	(248.4)
Net cash inflow/(outflow)	**154.3**	**(67.2)**
Opening net debt	**(2,614.3)**	**(2,463.1)****
Exchange and other movements	**(3.6)**	(84.0)
Closing net debt	**(2,463.6)**	**(2,614.3)**
Free cash flow pre dividends	**427.9**	204.1

*Restated as a result of adoption of the revised IAS 19 'Employee Benefits' in relation to underlying EBITDA and working capital.

**Opening net debt in FY2013 has been restated to reflect the impact of the change in terms of the property partnership in May 2012, which resulted in £606.0m being transferred from reserves to liabilities.

The Group reported a net cash inflow of £154.3m (last year outflow of £67.2m). This inflow reflects a £213.1m reduction in capital expenditure and a £60.1m decrease in interest and taxation. This is partly offset by a £22.1m reduction in underlying EBITDA, a £21.1m increase in pension funding driven by auto-enrolment to the defined contribution scheme and a £27.4m reduction in the working capital inflow.

In March 2014, the Group repaid a £400m bond from existing facilities and operating cash.

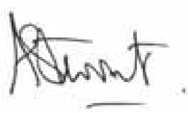
Pensions

At 29 March 2014, the IAS 19 net retirement benefit surplus was £189.0m (last year £236.0m). The decrease is due to a £200.6m reduction in the market value of scheme assets partly offset by a decrease in the present value of scheme liabilities due to an increase in the discount rate from 4.30% to 4.45%.

The investment strategy of the UK defined benefit scheme has hedging that covers 80% of interest rate movements and 84% of inflation movements which aims to reduce significant fluctuations in the scheme assets relative to the liabilities.

The most recent actuarial valuation of the UK Defined Benefit Pension Scheme was carried out at 31 March 2012 and showed a deficit of £290m. As a result, a funding plan of £112m cash contributions was agreed with the Trustees. The Group has contributed c.£28m to the UK Defined Benefit Scheme on 31 March 2014 and expects to contribute an additional c.£28m each year until 31 March 2017. The difference between the valuation and the funding plan is expected to be met by better than expected investment returns on the scheme's assets.

The Strategic Report was approved by a duly authorised Committee of the Board of Directors on 22 May 2014, and signed on its behalf by



Alan Stewart
Chief Finance Officer

22 May 2014

Board of directors

Robert Swannell
Chairman
Appointed: Chairman in Jan 2011, non-executive director in Oct 2010
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 promotes robust debate and drives a culture of openness in the boardroom. He was previously Senior Independent Director of both British Land and 3i Group and Chairman of HMV.
Other roles: Non-executive director of the Shareholder Executive, Chairman of the 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, turning around the business. 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.
Other roles: Alan will join Diageo plc as non-executive director on 1 September 2014.

Patrick Bousquet-Chavanne
Executive Director, Marketing and Business Development
Appointed: 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. He continues to lead the transformation of M&S's in-store environment and the publishing strategy for M&S.com. Patrick's extensive experience of the consumer goods industry was built up over a career spanning more than 25 years, with 15 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. He was Group President of the Estée Lauder Companies from 2001 to 2008.
Other roles: Non-executive director of Brown-Forman Inc.

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'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.com 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.

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 12 years in Clothing and General Merchandise, 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.

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.

Jan du Plessis
Senior Independent Director
Appointed: Senior Independent Director in Mar 2012, non-executive director in Nov 2008
Experience: 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, Board member of B&M Retail and a member of the Prime Minister of India's Council of Trade and Industry.
Committees: Audit, Nomination, Remuneration (Chairman Designate)

Alison Brittain
Non-executive director ❶
Appointed: Jan 2014
Experience: Alison brings significant financial and commercial experience combined with considerable knowledge of running customer facing retail branch networks. She was previously Executive Director for Retail Distribution and a Board Director at Santander UK. Prior to this she worked at Barclays for almost 20 years, holding various senior roles including Director of Barclays and Woolwich Retail Networks and Managing Director of Barclays Small Business Banking. She is a member of the FCA's Practitioner Panel. Alison attended university in Scotland and the USA and has an MBA from Cambridge University's Judge Institute.
Other roles: Group Director of Lloyds Banking Group's Retail Division.
Committees: Audit, Nomination

Andy Halford
Non-executive director ❶
Appointed: Jan 2013
Experience: Andy brings invaluable international, consumer and digital experience, as well as a strong finance background. He was previously Chief Financial Officer of Vodafone Group plc and a member of the Board of Representatives of the Verizon Wireless Partnership. He joined Vodafone as Financial Director of Vodafone Limited in 1999, becoming Financial Director for the 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: Member of the Business Forum on Tax and Competitiveness
Committees: Audit (Chairman), Nomination, Remuneration

Steven Holliday
Non-executive director ❶
Appointed: July 2004
Experience: 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, becoming CEO in 2006. His international experience includes four years in the US and he has developed business opportunities in countries including China, Brazil, Australia and Japan. Having served as a non-executive director for over nine years, Steve will leave the Board following the AGM in July.
Other roles: Group CEO of National Grid, Chairman of the Board of Trustees of homeless charity Crisis and Vice Chair of Business in the Community.
Committees: Audit, Nomination, Remuneration (Chairman)

Miranda Curtis
Non-executive director ❶
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 Chair of African girls' education charity, Camfed.
Committees: Nomination, Remuneration

Martha Lane Fox
Non-executive director ❶
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 was UK Digital Champion until 2013. She 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: Chancellor of the Open University, 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 and the Women's Prize for Fiction, founder of charitable foundation Antigone and patron of AbilityNet, Reprieve, Camfed and Just for Kids Law.
Committees: Audit, Nomination

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

❶ Independent

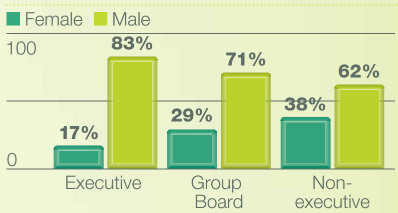
Board diversity

We launched the Board diversity policy in 2012 with the intention of ensuring that diversity, in its broadest sense, remains a central feature of the Board.

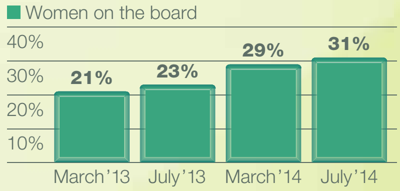
This year, the Board has taken some positive steps towards broadening the diversity of both the Board and our senior management. Our Board Diversity policy on page 51 sets out our ambitions with regard to diversity and what this means for our business, customers and stakeholders, as well as the progress we continue to make against those ambitions.

The tables and graphics below provide a visual outline of our board diversity in terms of gender, range of experience and length of tenure.

Board gender diversity



How is our board gender diversity improving?



Board experience

Consumer
100%

Retail
93%

Finance
36%

E-commerce & technology
43%

International

Non-executive Board tenure

0–1 year
12.5%

1–3 years
37.5%

3–6 years
25%

6–9 years
25%

Overview Strategic report Governance Financial statements and other information

Governance
Chairman's overview

"This year has been a key milestone towards realising our strategy."

Robert Swannell
Chairman

This has been a mixed year for the Company, one in which the scale of transformation delivered contrasted with weaker short-term trading performance and an intensely challenging retail environment.

Three years ago, we approved a strategy to become an international, multi-channel retailer. This year has been a key milestone towards realising that strategy, resulting in the culmination and final delivery of a number of substantial long-term projects. Most notably, this included the successful implementation of our multi-channel programme to move away from our old, Amazon supported online model, to a new platform supporting M&S.com, designed and built in-house. Furthermore, we opened our E-commerce Distribution Centre (EDC) and National Distribution Centre (NDC) at Castle Donington. The scale and complexity of change delivered by these projects in such a short time frame is exceptional for a retailer, but there is no doubt that it will better equip M&S for the longer term.

That said, our short-term trading performance has contrasted with these achievements. So while it was essential for us to remain focused on those major initiatives that are critical enablers for M&S to deliver in the future, the Board continued to question and challenge the performance of our General Merchandise business and the execution of plans to improve performance. The Board is encouraged by the improving product and the data from our Customer Insight Unit. These will continue to remain a key agenda item for the year ahead.

It takes courage to remain focused on what you believe is right for the long term when immediate trading conditions are tough. It will take time for the benefits of our decisions to be realised and these changes bring with them further costs that will impact short-term performance. However, Boards are trusted to make these choices, to balance the short with the long term and to reflect on the risks and benefits wisely. The impact of their actions will invariably outlive them.

At M&S, our values help support us and ensure we reflect on doing the right things the right way, even if this means making difficult choices. We believe that these values should continue to guide the principles of how we do business and, if we continue to respect these, they should underpin our performance for the longer term. Being true to our values and being fair has underpinned our behaviour with our stakeholders, as well as enabling us to build and maintain a trusted relationship with our customers, employees, suppliers and the communities in which we have operated over the last 130 years.

This year's report – key features

Following positive feedback around the level and style of disclosures relating to our Board activity, this year's report provides:

- Enhanced integration across the report: this was a process started last year
- Greater insight into our Board discussions, investment deliberations, our annual offsite meeting and our view on Board performance in the year
- Further disclosure from our Audit Committee, including detail on the tender of our statutory auditor and debate around key risks, significant issues and Auditor effectiveness
- Greater clarity to our remuneration disclosures and policies, in addition to that required by recent regulation
- More detail into our Nomination Committee debate, including talent development and succession

As a Board we regularly discuss and review our:

- Performance and progress
- Brand and reputation
- Behaviours
- People and how we can create a high performing team
- Future development and succession
- Customers, suppliers and local communities
- Shareholders
- 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 2006 and which our directors know they are trusted to consider on behalf of all stakeholders.

These values also root our decision-making across the business. An example of this is provided by Steve Rowe within his Food update, where he highlights the decision of our food business to ensure our farmers not only continue to get a fair price for the products they sell in the wake of intensified price activity in the milk market, but also rewards them for their animal welfare standards. In our clothing business, these values encourage us to be vigilant in ensuring that our supply chain is ethical. Our increased engagement with our stakeholders and better two-way stewardship has enabled a better understanding of the issues we face.

We have welcomed calls for greater openness and transparency on Board deliberations. For the last few years, we have actively focused on ensuring our reporting is **fair, balanced and understandable**, giving insight into the factors underpinning our deliberations and decisions, and highlighting where things have gone wrong. This in turn helps us as a Board to reflect on how we can maximise our impact, look at the way we do things, and reflect on the quality of the decisions and the investments we have made.

Throughout the year, the Board agenda was structured to allow for regular updates on the progress of the multi-channel programme and EDC/NDC project in particular, enabling the Board to be alerted to, and to challenge, delivery or project governance issues in a timely manner.

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 over the long-term.

UK Corporate Governance Code

The UK Corporate Governance Code 2012 (the 'Code') is the standard against which we were required to measure ourselves in 2013/14. We are pleased to confirm that we complied with all of the provisions set out in the Code for the period under review.

A summary of our governance profile, outlining our compliance with key areas of the Code, has been set out on page 2 of the Strategic Report.

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. Again, we use the key themes of the Code as a framework for articulating this narrative. Feedback from stakeholders has encouraged us to keep a similar format to previous years. As such, our approaches to **Leadership** and **Effectiveness** are outlined on pages 40 to 43, **Accountability** on page 44 and pages 15 to 17 within the Strategic Report, **Engagement** and relations with shareholders on pages 45, **Remuneration** on pages 52 to 77 and the Governance of our **Pensions Scheme** on page 78.

To ensure clarity in this report, we have focused on the key insights. However, further detail is available on our website, marksandspencer.com/thecompany.

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 at marksandspencer.com/thecompany.

We hope you can see that Governance at M&S is not simply an exercise in 'box-ticking', but an important element of our Board environment. It enables us to test whether we do the right things in the right way, with the right safeguards, checks and balances, and whether the right considerations underpin every decision we take.

We also trust that you will find this report to be fair, balanced and understandable. It is, after all, a reflection of how we do business and how the Board has served its stakeholders.

We believe this practical approach will support our performance for the long term and should thus protect the trust, integrity of our values and the M&S brand.

Appointments and succession

The **Nomination Committee** has continued to work on ensuring appropriate succession and mix amongst both the executive and non-executive directors. Our Board Diversity Policy sets out our ambitions and objectives for shaping the Board. We have also focused on the skills, experience and backgrounds we want to support the business for its future. We are pleased that, following the AGM, 31% of our Board will be women (29% at date of publication). This is in line with the target we set ourselves, but importantly, is appropriate for M&S and its customer base.

Last year we highlighted the succession plans for our non-executive directors, Jeremy Darroch and Steven Holliday. Jeremy left the Board in June 2013 after six years on the Board and five as Chairman of our Audit Committee. Andy Halford has taken over as Chairman of the Audit Committee. Andy brings considerable financial experience, having held the role as Finance Director at Vodafone for over nine years, until March 2014.

As I advised last year, Steven Holliday will leave the Board following the AGM in July 2014. Steve has been a valuable Board member for 10 years and Chairman of our Remuneration Committee for over four years. We announced in September 2013 that Vindi Banga will take over as Chairman of the Remuneration Committee following Steve's departure. Vindi was appointed to the Board in September 2011 and has been a member of the Remuneration Committee since his appointment. Steve and Vindi have been working closely together over the last year to ensure a smooth transition, meeting investors to hear their views ahead of the publication and vote on our Remuneration Policy and framework at the AGM this year.

In order to ensure appropriate balance of non-executive to executive is maintained following Steve's departure, the Nomination Committee undertook a full search process, assisted by external search consultants, and in January 2014 Alison Brittain was appointed as a non-executive director. Alison is Group Director of Retail at Lloyds Banking Group; she is a great addition to the team and brings strong commercial and retail experience.

Within the executive team, as announced last year, Steve Sharp stepped down from the business after 10 years. We are grateful to him for his notable contribution. Patrick Bousquet-Chavanne has now taken responsibility for Marketing and Business Development. He plays an important role as part of the executive team in terms of brand position and customer engagement.

In addition to Board appointments, the Nomination Committee has also reviewed Committee membership and recommended a number of changes, with the appointment of Andy Halford to the Remuneration Committee and Alison Brittain to the Audit Committee. The Committee remains focused on our future talent pool and longer-term succession potential. Its activities and engagement with the business is outlined in detail on page 50.

This year, the **Remuneration Committee** has been particularly focused on ensuring the business meets the new regulatory requirements, and have reviewed and debated at length the remuneration framework and Policy ahead of this being put forward for shareholder approval this year. The Committee has also continued to develop and test the setting and disclosure of objectives and targets. These are highlighted in further detail on page 52.

Monitoring Risk

In view of our longer-term ambitions, the significant investments that have been made across the business and increasing complexity as we grow, 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 15 and pages 46 to 49.

We have built a committed, challenging Board. There is much to do and we can always do things better, so it is essential we are open to ideas which help us improve. Our annual Board evaluation plays a key role in highlighting those areas where we want to do better, and these form part of the action plan for this year.

Robert Swannell
Chairman

Leadership and effectiveness

This section looks at our Board members, their role, their performance and their oversight. We also look at their induction, their succession and provide particular insight relating to Director:

- Independence;
- Effectiveness: the annual Board review process, output and action plan for the year ahead; and
- Ongoing development, business training, engagement and mentoring.

Who's on our Board	Board Meetings		Percentage attended
Name of Director	A	B	
Chairman			
Robert Swannell	8	8	100%
Chief Executive			
Marc Bolland	8	8	100%
Executive directors			
Patrick Bousquet-Chavanne (appointed 9 July 2013)	6	6	100%
John Dixon[1]	8	7	88%
Steve Rowe	8	8	100%
Steven Sharp (retired 9 July 2013)	3	3	100%
Alan Stewart	8	8	100%
Laura Wade-Gery	8	8	100%
Non-executive directors			
Vindi Banga	8	8	100%
Alison Brittain (appointed 1 January 2014)	2	2	100%
Miranda Curtis	8	8	100%
Jeremy Darroch (retired 19 June 2013)[2]	3	2	67%
Martha Lane Fox	8	8	100%
Andy Halford	8	8	100%
Steven Holliday (retires 8 July 2014)	8	8	100%
Jan du Plessis	8	8	100%

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

1. John Dixon was unable to attend the meeting on 4 December 2013 due to personal reasons.
2. Jeremy Darroch was unable to attend the meeting on 1 May 2013 due to prior business commitments.

The role of the Board

The Board is responsible for ensuring leadership through effective oversight and review, whilst setting the strategic direction and delivering sustainable shareholder value over the long term.

While the Board is not managing the day-to-day operations of the Group, its role is to establish and monitor strategy, to consider the impact of its decisions on wider stakeholders including customers, 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. Our Board 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 the 2013/14 activities of each Committee later in this report.

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

The Board held eight scheduled meetings in the 2013/14 year, individual attendance is set out in the table provided. Sufficient time is given at the end of each board meeting for the Chairman to meet privately with the Senior Independent Director and non-executive directors to discuss any matters. As in previous years, the Board held a two-day strategy meeting away from the office; a brief overview of the key areas of discussion and other discussions during the year is provided on the next page.

Risk monitoring and oversight

Protecting the business from operational and reputational risk is an essential part of the Board's role. During the year the business has continued to make progress towards implementing the key areas of our strategy. This progress continued despite the challenging trading environment in which the business was operating. The Board, supported by the Audit Committee, maintained close oversight and monitoring of the key business risks throughout this change, assessing the progress of mitigating activities in the context of our risk appetite. The Group Risk Profile, owned by the Board, is compiled by Group Risk, using business area risk registers and one-on-one interviews with each Board member and the director of each business unit. Independence is embedded in the process with oversight from the Audit Committee, ensuring that the risks included in the Group Risk Profile continue to reflect the business' strategic objectives. The Internal Audit plan is then mapped to the Group Risk Profile to provide assurance over mitigating activities.

Strategic progress

Progress against strategy is discussed at each Group Board meeting and closely monitored by the Executive Board. A two-day strategy meeting, held away from head office, provided the opportunity for more relaxed, free-flowing and less structured discussion around a broad range of strategic issues. This year the agenda focused on Food, General Merchandise, Brand and Values, the UK and International. Progress was reviewed against the intended plan. The Board also debated the longer term challenges and priorities, and the extent to which the business and management structures are placed to address these. A number of opportunities were identified and areas for attention highlighted. The non-executive directors are able to share their expertise and provide independent oversight to the direction of the business. Discussions focused not only on the business plan but also the individuals leading and implementing that plan. These, and the teams that support them, are key to the delivery of the Board's objectives.

Board in action
Martha Lane Fox (non-executive director) speaking at the launch of our women's leadership network.

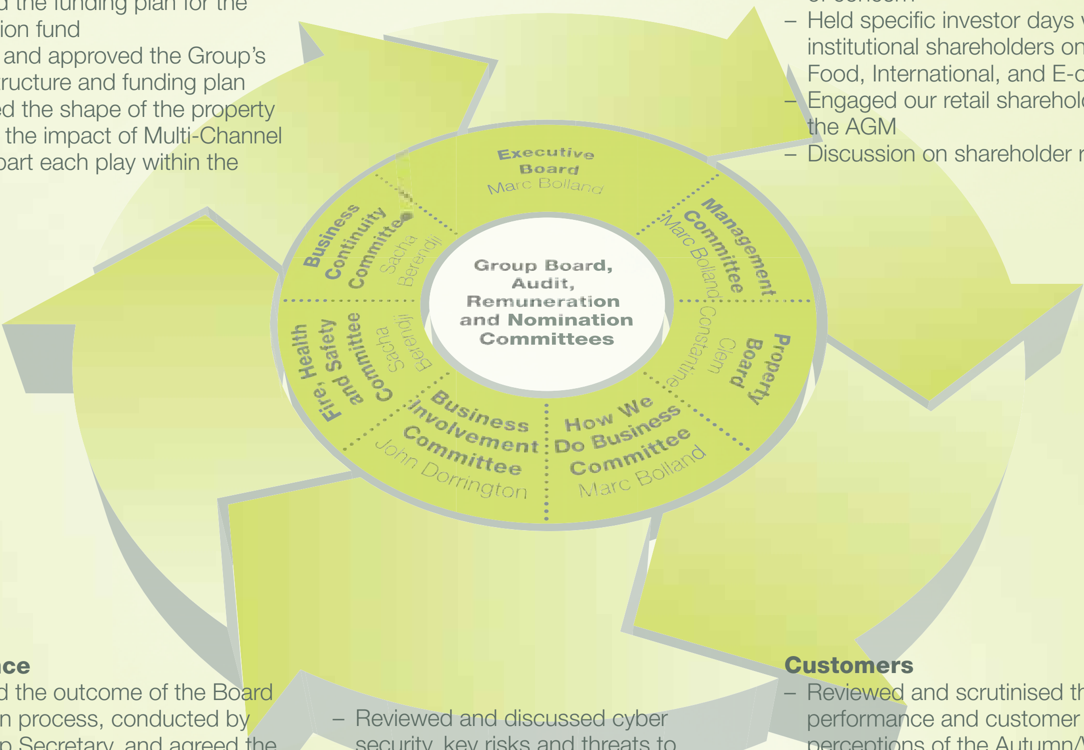
Board activity 2013/14

Strategy
- Two-day off-site meeting provided time to:
  - Test and review the corporate strategy
  - Reflect on the significance, importance and relevance of the Company's brand and values
  - Debate and continue to shape the GM and Food strategies
  - Discuss the opportunities and risks within Multi-Channel and International, and the impact on the long-term strategy
  - Review the retail and property strategy
- Debated, scrutinised and approved the three year plan and operating plan
- Reviewed the funding plan for the DB Pension fund
- Debated and approved the Group's capital structure and funding plan
- Discussed the shape of the property portfolio, the impact of Multi-Channel and the part each play within the business

Leadership and employees
- Discussed the composition and succession of the Board and its Committees and approved the appointment of a new non-executive director
- Reviewed the talent and succession report, focusing on the key leadership positions across the business
- Discussed employee engagement across the business – Annual 'Your Say' survey and quarterly Pulse surveys

Trust & values
- Discussed the continued importance of Plan A and its initiatives in driving the Company's values
- Brand and Values discussion

Shareholder engagement
- Discussed the Independent Investor Audit, relaying the views of Institutional Shareholders to the Board – conducted by KPMG Makinson Cowell
- Held our 3rd annual Governance Event for our top 20 shareholders and investor bodies, where the Board engaged directly on the key elements of the strategy, Audit, Remuneration and Plan A, and tackled key areas of concern
- Held specific investor days with our institutional shareholders on GM, Food, International, and E-commerce
- Engaged our retail shareholders at the AGM
- Discussion on shareholder rewards



Governance
- Reviewed the outcome of the Board evaluation process, conducted by the Group Secretary, and agreed the action plan for 2013/14. Discussed and agreed progress against the 2013/14 Board evaluation
- Agreed a full external tender of the Company's statutory auditors, closely monitored the process and approved the Audit Committee's recommendation to appoint Deloitte as Statutory Auditor for the 2014/15 financial year
- Reviewed and debated the findings from the external investigation commissioned by the Board following the leak ahead of the 2013 Q3 IMS
- Reviewed and discussed cyber security, key risks and threats to the business and the Company's preparedness for a significant cyber and information security breach
- Received an update on valuation, performance and governance from the Chairman of the Pension Trustees
- Reviewed BIS and other consultations and additional reporting requirements for the year
- Received updates on key legal issues and all court and regulatory proceedings
- Broadened our Committee updates giving greater insight into the Committee deliberations to the wider Board

Customers
- Reviewed and scrutinised the performance and customer perceptions of the Autumn/Winter collection as a key pillar of the GM strategy
- Assessed the business case for the store modernisation programme and approved its continued roll-out across the portfolio
- Monitored and discussed growth of the M&S Bank branch network and the take up of current accounts

Leadership and effectiveness continued

Board structure

Group Board

Executive Board

Management Board

Principal Committees
Audit Committee
Remuneration Committee
Nomination Committee

Executive Committees
How We Do Business Committee
Property Board
Fire, Health & Safety Committee
Business Continuity Committee
Customer Insight Unit
Big Involvement Group

While the Board did not make any site visits as a group during the year, a number of our non-executive directors did have the opportunity to visit some key operations and stakeholders across the business covering our suppliers and our logistics operations.

Director induction

On joining the M&S Board, directors receive a tailored induction programme. Led by the Chairman, this includes time with each of the executive directors, the Group Secretary, members of the Management Committee, a wide range of senior management from across the business and the opportunity to meet with major shareholders.

This year, Alison Brittain received a comprehensive induction programme covering:

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

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

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

Alison's induction programme was supported by one-on-one meetings with management from General Merchandise, Food, M&S.com, International, Retail stores, Finance, Property, IT, Logistics, Marketing, Customer Insight, Human Resources, Communications and Investor Relations, Internal Audit and Risk, Plan A, Pensions, the Company Archive and the Governance Group.

Alison visited a number of stores with the Retail team, met with Belinda Earl and the Womenswear team, and visited our distribution centre in Castle Donington with the Logistics team.

Independence of directors

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

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.

Steven Holliday will step down in July after 10 years on the Board. When re-elected at the 2013 AGM, shareholders were particularly supportive of Steve's continued service to assist and ensure the smooth transition of the Board and Committee changes over the last year.

Martha Lane Fox has served on the Board for seven years. The Board approved the appointment of Martha for a third term in May 2013. Like Steve, Martha received strong support from shareholders for her re-election at the 2013 AGM.

This year, given that Martha has served more than six years with the Company, her appointment was the subject of particular review and scrutiny. Taking Steve's departure into account, the Board considers that all of the non-executive directors bring strong independent oversight and continue to demonstrate independence. With the exception of Martha, all continuing non-executive directors have served less than six years on the Board. Details and experience of each director can be found on pages 36 to 37.

Board and succession

Succession and the succession pipeline remains a key agenda item for the Board. Three changes were made to the Board during the year, following the retirement of one executive and two non-executive directors. These retirements were known long in advance of their retirement date, which allowed the Board to focus sufficient attention on ensuring the new appointments came with the required qualifications, experience and skills to meet the challenges and opportunities ahead. Further detail on the appointments and other board changes scheduled is covered on pages 50 to 51. All appointments were made against objective criteria. Both internal and external candidates were considered for the executive position.

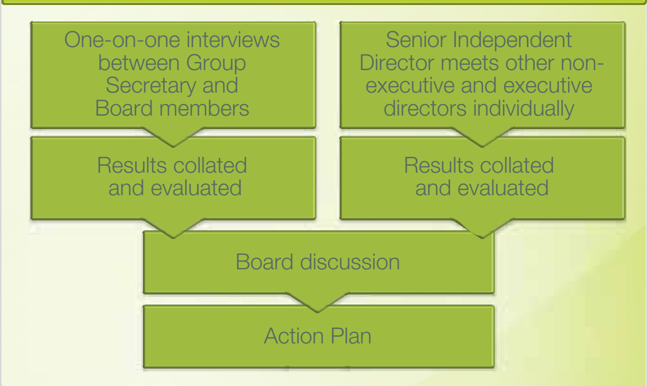
Board in action – Sept 2013
Robert Swannell in Kenya visiting some of the farms and factories which supply M&S with products such as cut flowers, vegetables, tea and coffee.

Board Effectiveness Review

Every year our review gives us the opportunity to reflect on the effectiveness of our activities, the extent of our deliberations, the quality of our decisions and for each member to consider their own performance and contribution.

Our review was facilitated internally by the Group Secretary and Head of Corporate Governance. Amanda has significant insight into both the day-to-day and strategic workings of the Board and is a key point of contact and advice for Board members throughout the year. She is therefore considered a suitable and independent sounding board for this process. Next year, after a gap of two years, we intend to use an outside facilitator.

Board and Committee review process



In line with previous years, and to ensure continuity, we agreed that a detailed and focused one-on-one discussion with each director was the most effective way to facilitate constructive and meaningful insight and output. Directors were asked their views on a broad range of subjects:
- Composition, skills, balance, experience and diversity;
- Culture and quality of contributions;
- Strategic and risk debate;
- Succession planning;
- Effectiveness of decision making;
- Resourcing of meetings, agenda planning and quality of information and papers;
- Corporate governance, regulatory compliance and support;
- Selection and induction of new members;
- Evaluation of individual performance and scope for improvement;
- Committee effectiveness and communications to the Board

Furthermore, the Senior Independent Director meets with the non-executive and executive directors at least once a year to review the Chairman's performance. This review is then shared with the Chairman.

All recommendations are based on best practice as described in the UK Corporate Governance Code and other current corporate governance guidelines.

Board review insights 2013/14

Overall, the Board is considered a high calibre, experienced, broad-based and diverse team offering a range of perspectives. It has a deep sense of commitment to M&S and there was positive feedback on the Board's most recent additions.

Board discussions are generally considered open, challenging but respectful. Participation of all members is actively encouraged. It is important to ensure the size of the Board does not limit either debate or the decision-making process.

The Board awayday was much improved and therefore considered more productive year-on-year in terms of: agenda structure, level of constructive discussion and debate, quality of papers and submissions, with strong pre-reads, and clear output for further discussion and action.

Particular progress was felt to have been made around the timeliness of Board papers. However, quality and consistency of papers should continue to be a key area for improvement. Similarly, it was felt that tracking and reflection on the quality of past discussions and investments should continue to be another key action.

Board Committees were all considered to work well with thorough debate, a clear grasp of issues and subject knowledge. Committees are considered well chaired and managed, with greater clarity around agenda and decision process. The external auditor tender process was considered efficient and well run. Feedback from Committee meetings to the whole Board was felt to have further improved.

The process on succession planning and people is considered well run. It was felt that we should continue to increase exposure to high potential employees across the business and ensure greater insight on talent development and management. We should also encourage the business to benefit from greater access to non-executive directors and their wide range of experiences.

Induction programmes were considered thorough, but more could be done around ongoing development, particularly in relation to UK retail and property.

Governance knowledge, information and engagement with stakeholders was considered good and Board members felt well supported.

Board Action Plan for 2014/15

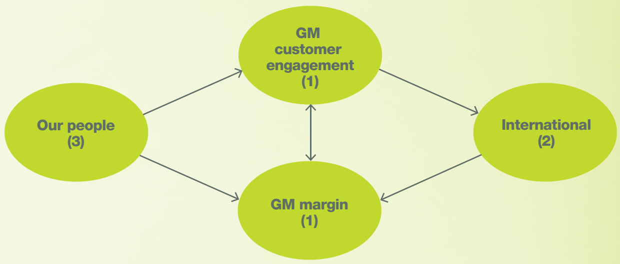
After a thorough debate of the review, the Board has agreed an action plan for the year ahead. The actions address the key areas of Board oversight and focus, risk and information management. During the year, the Board is committed to:

- Focus on driving performance, reviewing key performance indicators and benchmarking;
- Continue to ensure appropriate debate and clarity around key business and strategic risks, and our risk approach;
- Improve tracking, review and debate on the quality of past decisions;
- Continue to develop our succession planning, insights into high potential individuals and their development in the business;
- Continue to encourage greater interaction with our non-executive directors to benefit from their experience.

Risk in action

We continue to recognise the significant interdependency between our key risks. 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. By understanding the relationship between our key risks (if they were to materialise), we are better placed to ensure that we are managing them appropriately and to understand the entirety of our risk exposure.

GM customer engagement and margin

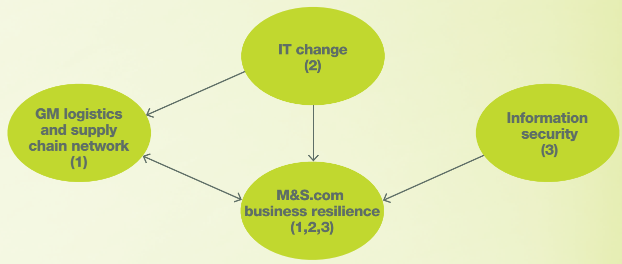


1. To drive **GM customer engagement** we will continue to build our product design and quality credentials and our brand momentum, which in turn should drive sales. As we improve **GM margin** by strengthening our design, trading and sourcing capabilities, it is essential that we continue to deliver the product quality our customers expect of us.

2. Failure to drive **GM customer engagement** may have a knock-on impact on **International** sales which would, in turn, affect **GM margin**.

3. Our ability to drive **GM customer engagement** and **GM margin** is dependent on **Our people**, in terms of the effectiveness of our organisational set-up and the skills and competencies to deliver change.

M&S.com business resilience



To ensure **M&S.com business resilience**, it is important that the key dependencies of our online business are identified, understood and mitigated:

1. A disruption to operations within the **GM logistics and supply chain network** could prevent the complete and timely fulfilment of customer orders.

2. As we transform our business, there is a risk that **IT change** to our systems has an unforeseen impact on the operation of our website or our **GM logistics and supply chain network**.

3. It is also important that we manage our cyber security risk (a key aspect of **Information security**) to protect customer data and prevent website performance issues or denial of service.

Risk and the role of Internal Audit

Internal Audit & Risk comprises both the Group Risk function and Internal Audit. Group Risk facilitates and manages the risk process that is ultimately owned by the Group Board. Internal Audit, accountable to the Audit Committee, uses a risk-based approach to provide independent assurance over the adequacy and effectiveness of the control environment, including controls related to key risks on the Group Risk Profile. The following examples illustrate how Internal Audit supports the business through driving improvements to our control environment and adding value in core business areas.

Risk: International

In support of the Group's international growth plans, Internal Audit conducted a review of the process to enter new countries, including partner selection and ongoing governance post set-up. The audit found that robust, structured processes are in place for country selection and that partners are selected objectively, based on well-defined criteria, with up front due diligence. The audit highlighted an opportunity to better formalise the trigger points that would initiate a partner due diligence review post set-up, such as changes to ownership structures or relationships.

Risk: M&S.com

Internal Audit partnered with a specialist third-party programme assurance provider at key stages leading up to the launch of our new website. We assessed the adequacy of programme governance controls, as well as business readiness to adopt new processes and ways of working. We also assessed planning for the transition from the old Amazon website to the new M&S.com website. Management implemented a number of recommendations from the audit, which included extending the period for user acceptance testing and formalising dependencies with other change programmes. Overall we found robust controls in place to ensure delivery on time, to budget and with quality. Following the successful delivery of the M&S.com website, this risk no longer features in the Group Risk Profile.

Risk: GM customer engagement

Internal Audit assessed controls over the collection, analysis and reporting of store customer survey data. Invitations to participate in the survey are issued at random with till receipts, resulting in approximately 50,000 responses per month rating our product, environment and service. Our audit confirmed that effective controls are in place over the completeness and accuracy of the reported survey results based on the current scope of the surveys. Opportunities were identified to increase response rates in smaller stores and to extend the programme to include other payment points, such as self-service tills and our more recently introduced Browse and Order hubs.

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

For further information turn to page 15

Engagement

Robert Swannell – Chairman

The Board believes that shareholder engagement is not merely a task to be undertaken at year end in order to secure the required votes at the AGM. We believe that open and regular dialogue with investors provides the foundation for a long and trusted relationship. Continual engagement provides investors with an opportunity to discuss particular areas of focus and raise any concerns. There will inevitably be some points on which we do not fully agree, however, we believe that clear and open discussion allows these to be debated and set in the context of our wider business goals. As a Board, we are the custodians of this fantastic brand and we are trying to do the right thing to secure its future for the long-term.

During the year the business had over 690 contacts with over 350 separately identifiable institutions in the form of one-to-one or group meetings hosted by an executive director or our Investor Relations team. In addition to the AGM, we also engaged with a number of leading private client brokers who typically represent our retail investor base.

In June, I hosted the third annual M&S governance event and was pleased to see more investors attending and sharing their views. In addition to this, I met with investors, industry representatives and the Chairmen of other leading FTSE companies to discuss a range of governance matters including Board diversity, remuneration and corporate reporting.

Governance Event

Now in its fourth year, the M&S Governance Event is an annual fixture on the calendar hosted by the Chairman, Robert Swannell. Board attendees for 2014 will be Jan du Plessis (Senior Independent Director), Andy Halford (Chairman of our Audit Committee), Steven Holliday (Chairman of our Remuneration Committee), Martha Lane Fox (Non-executive director and member of our Sustainable Retailer Advisory Board) and Mike Barry (our Head of Sustainable Business).

Invitations are sent to our 30 largest shareholders, representatives from the influential investor advisory firms and industry governance specialists. Attendance is growing year-on-year. The event provides an opportunity to meet and discuss the considerations of the Board and its Committees during the year and going forward. The meeting is structured around presentations on:

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

A copy of the presentation is available on our corporate website, marksandspencer.com/thecompany.

"As a Corporate Governance analyst the information presented was exactly what I wanted to learn about the company and how it works. I really liked the format, which allowed the investors to learn how the Board and its committees work and how the procedures fit within the broader picture of Plan A. It would be very helpful if more major companies held similar meetings."

Feedback from an attendee

A number of broader investor presentations were hosted during the year. These focused on a number of key areas and provided thoughts into E-Commerce and the General Merchandise Autumn preview in May, a visit to the Pantheon store in September and a Food business update in October. Presentations are made by senior M&S managers and provide investors with more detail on the progress of the Group's operations. They do not include any additional statements on current trading performance, nor do they disclose any new, material financial information. The slides from the presentations are added to our corporate website for wider viewing and offer detailed insight into how we intend to develop our strategy over the short to medium term.

Makinson Cowell, the capital markets advisory firm, continue to provide guidance to our Investor Relations team and carry out an annual audit of our major investors' views on the Company's management and performance, the results of which are presented to the Board every year.

Amanda Mellor – Group Secretary

The role of the Company Secretary has evolved considerably in recent years. The key responsibility for efficient company administration, ensuring compliance with statutory and regulatory requirements and that decisions of the Board of Directors are implemented, remains fundamentally important. However, today the Company Secretary is increasingly seen as a sounding board for the Chairman, the executive and the non-executive directors, providing advice and support on best practice and a broad range of governance matters. We provide feedback on a wide variety of consultation documents to help shape the future of governance and reporting. We participate in forums and debate on future issues and give presentations at universities and conferences to help guide the talent pool of the future. Throughout the year, I try to focus not just on our own practices and procedures, but also on meeting investors, investor advisory firms and other company secretaries to discuss their views and approaches to governance matters.

However, engagement is not just about governance. It is important that we maintain our trusted relationship with our shareholders, 95% of whom are private investors. A majority of these are also valued customers, some of whom send us feedback requesting additional discounts in return for shopping in store or online. Although we already distribute shareholder vouchers with the January dividend payment, we are working with Equiniti, our registrar, to look at how we can facilitate a new shareholder initiative that provides investors with wider benefits that reflect their level of investment. We will provide more information about this in due course.

AGM

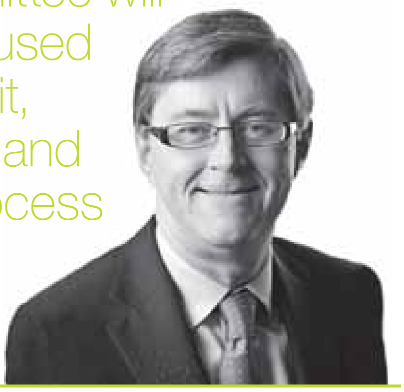
The 2014 AGM will be held at Wembley Stadium in London on Tuesday 8 July at 11am. The Notice of Meeting sets out the schedule for the day and the resolutions to be proposed at the meeting. A copy of the Notice can be downloaded at marksandspencer.com/investors. In line with last year, the meeting will be webcast live and a recording of the meeting made available on our website after the event.

The AGM provides the Board with an opportunity to spend time with our private shareholders. The Board and M&S's senior management team will be available for shareholders to speak to before the meeting. The Chairman and Chairs of each of our Committees will be available to answer shareholders' questions during the formal proceedings of the meeting.

The AGM in 2013 was a well attended and successful event at which all of the proposed resolutions were passed. The percentage of the Company's share capital who voted in favour of each resolution ranged from 81.88% and 99.99%.

Audit Committee Report

"The Committee will remain focused on the audit, assurance and the risk process within the business."



Andy Halford
Chairman of the Audit Committee

In June 2013, I was appointed Chairman of the Audit Committee following the retirement of Jeremy Darroch, who had provided seven years of service to the business. My first year as Committee Chairman has seen the introduction of many changes to corporate reporting, some of which Robert Swannell discusses in his overview on pages 38 to 39. This report provides an overview of what the Committee has done during the year, an overview of the audit tender process conducted, how it has assessed the effectiveness of the external auditors, greater detail on the non-audit fees incurred and those forecast for the coming year. Furthermore, it provides the Committee's opinion on the Annual report when viewed as a whole, including how it has assessed the narrative reporting in the front of the report to ensure that the messages conveyed accurately reflect the financial statements in the back.

This report takes you inside the boardroom and shares some of the detail from the executive updates presented to the Committee from across the business. These help the Committee to better understand the challenges, key business areas, the risks being mitigated and progress against the strategic plan. The Committee members challenge, discuss and debate with the presenters whilst sharing their own business experiences for the benefit of the Company.

Committee updates

Detailed updates from the business are now fully embedded as fixed agenda items for each committee meeting, with one or more areas represented. Business updates are planned on a

Effectiveness of the Audit Committee

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

Name of Director	Date appointed	A	B	Percentage of Meetings attended
Andy Halford (Committee Chairman)[1]	1 Jan 2013	6	6	100%
Steven Holliday	15 July 2004	6	6	100%
Martha Lane Fox	1 June 2007	6	6	100%
Jan du Plessis	1 Nov 2008	6	6	100%
Jeremy Darroch[2] (resigned 19 June 2013)	1 Sept 2006	1	1	100%
Alison Brittain (appointed 11 Mar 2014)	11 Mar 2014	1	1	100%

A = Maximum number of meetings the director could have attended.
B = Number of meetings the director actually attended.
1. Andy Halford became Committee Chairman on 19 June 2013.
2. Jeremy Darroch was Committee Chairman until 19 June 2013 when he resigned from the Board.

What has the Committee done during the year?

During the year the Committee:

- Conducted a full tender of the external audit contract and recommended the appointment of Deloitte as the Company's Statutory Auditor;
- Reviewed the three-year assurance plan, design and scope;
- Reviewed and debated the risk profile, classification and management of key risks, identification of new emerging risks and movement in risk tolerance as we better manage existing risks;
- Received and discussed specific risk presentations on key business areas;
- Implemented the key findings from the external review of the internal audit function, including a revised Audit Charter;
- Discussed new Governance Code and reporting requirements with particular focus on how our messages are best reported to shareholders;
- Discussed internal financial controls, changes in accounting policies and impact on our financial statements, with specific focus on the significant issues and matters of judgement;
- Discussed other areas of compliance, including the Grocery Supply Code of Practice (GSCOP), Bribery, Whistleblowing and Fraud;
- Continued to receive updates from executives managing key areas of the business, including Plan A; Multichannel Foundation Programme; E-commerce Distribution Centre (EDC)/National Distribution Centre (NDC); International Operations; Business Continuity, Fire, Health & Safety and Food Safety. These account for around a quarter of the time allocated to the meetings; and
- Conducted a comprehensive review of external auditor effectiveness, identifying areas for improved information flow.

What is the action plan for 2014/15?

The Audit Committee's performance is reviewed each year within the framework of the wider Board Effectiveness Review. Areas of improvement are highlighted, discussed and debated by the Committee, and included as part of the action plan for the coming year.

Looking ahead, the Committee will remain focused on the audit, assurance and risk process within the business, and maintain its oversight of financial and other regulatory requirements. The action plan for 2014/15 will focus on:

- Ways of working and assurance following appointment of Deloitte as the new Statutory Auditor;
- The recommendations identified through the external auditor effectiveness review;
- Assurance plan, design and scope, with particular focus on key strategic priorities; and
- Specific business presentations relating to risks within the Group Risk Profile.

rolling 12-month basis and reviewed at every meeting. This year's business insights included:

Plan A – annual

The Plan A update was provided to the Committee in May 2013 prior to the next phase being introduced. Plan A 2020 now sets out a new set of 100 commitments and represents another step in our journey towards becoming a truly sustainable retailer. Full details can be found in our online Plan A report at marksandspencer.com/plana2014

May 2013 update:

- Reviewed the progress made over the last year and the business's 180 ongoing objectives. At the time of the update 139 were complete, 31 on plan, 5 were behind, 4 had not been achieved and 1 had been cancelled;
- Updated on the Marks and Start programme – this is now highly supported in stores. 50% of those on the programme have gone on to obtain jobs with M&S or other employers;
- Received an update on the Cheshire Oaks store and its environmental benefits, which were measured at being 15% greater than those anticipated during the design specification;
- Updated on the Shwopping programme and the momentum building behind the initiative; and
- Updated on the international strategy for Plan A.

Integrated Controls Framework

- Updated on the status of the financial control environment following a review by PwC;
- Discussed the standardisation, integration and automation of the framework, focusing on inventory integrity, interface management, control designs within projects and system complexity;
- Updated on the areas identified to have opportunities for improvement; and
- Discussed opportunities to accelerate standardisation, integration and automation, and any challenges presented by the current business change projects underway.

Food safety

- Updated on the risk profile, the potential impact of the risks and M&S's reputation;
- Updated on developments and behavioural changes within the industry, including fraud and variable quality within the supply chain, increased testing and auditing, cost of technical resource and media interest;
- Discussed the M&S supply chain and how the close management of all stages protects the integrity of our products;
- Received an overview of the governance structure and the use of independent third-party specialists;
- Updated on the role of the regulator and current opinion towards M&S; and
- Discussed the risks relating to the international operations, how these are different and how they are being managed.

E-commerce Distribution Centre (EDC) and National Distribution Centre (NDC) in Castle Donington

- Updated on the progress and the challenges relating to the project and how these are being managed;
- Received an overview of the transitional phase, and the removal of the legacy network;
- Discussed the customer impact should the project overrun or experience problems;
- Discussed resource capabilities, including technology, communications, planning and the importance of learning for future projects;
- Discussed business continuity plans, their robustness and how these are embedded into the process;
- Updated on the technical complexity, resilience and structure of the operation; and
- Discussed how plans had been modified to align with other projects and forecast trading volumes.

Multi-Channel Foundation Programme

- Updated on the key risks and the mitigating actions;
- Discussed the governance processes embedded throughout the development and the quality of independent assurance provided;
- Updated on the implementation process and the staged transition from the Amazon platform;
- Discussed the go-live date, the implications should this not be achieved and the associated business contingency plans; and
- Discussed the business requirements and how the business was evolving to support the multi-channel operations.

International operations

- Updated on the risks and mitigating actions to deliver the international strategy;
- Updated on the infrastructure required to deliver future growth and the integration of the international business into key strategic programmes;
- Discussed the various business formats operated throughout different regions;
- Updated on the business continuity plans and discussed the results of test exercises undertaken, the levels of assurance and the frequency of testing;
- Discussed tactical changes to deliver benefits in the shorter term as the supply chain evolves;
- Updated on franchise partner performance, operational management and anti-bribery measures; and
- Discussed the scale of change required to build a truly international business along with the impact on ways of working, new structures and practices.

Tenure and tender of the external auditor

Last year we advised that PwC (and its predecessor firms) had been the Auditor for M&S since 1926. To maintain objectivity of the Audit process, M&S actively supports audit partner rotation.

Given the length of PwC's tenure and the changes to the UK Governance Code in 2013, we committed to putting the external audit contract out to tender. The tender process was initiated in June 2013, concluded in the latter part of 2013 and on 5 December the proposed change in Statutory Auditor was announced by the Board. From the 2014/15 financial year, if agreed by shareholders, Deloitte LLP will be the Company's Statutory Auditor.

The process

An audit tender team was created and led by the Head of Internal Audit and comprised representatives from Corporate Governance, Finance, IT and Central Procurement. Six firms were invited to participate, two of which were "mid tier" audit firms. Three audit firms reached the final stage of the tender process.

Committee members received detailed responses from each firm to a formal Request for Proposal (RFP), along with copies of a full presentation for discussion at the meeting. The audit tender team also prepared a summary of each proposal, an overview of notable points from each RFP, and thoughts and observations from the tender process.

The Committee held meetings with each firm individually, during which they received detailed responses to preset accounting questions and to general matters closely linked to M&S's corporate values. The presentations were followed by an extensive discussion and Q&A session with the Audit firm. Following each meeting, the Committee then discussed the presentation, the views communicated and the perceived strengths and weaknesses of the team.

After reviewing all three proposals, the Committee held a separate meeting to discuss the merits of each firm and their respective teams. It considered the views of the internal team, the likely level of disruption as a result of any change, and the cost proposals presented by each firm.

The outcome

While the Committee acknowledged that all three firms had the capability to deliver a high quality audit, the internal team were asked to review two of the three firms and measure them against a number of specific points from the RFP and to report back with their findings. The interim period gave Committee members additional time to reflect further on these two firms.

The review further validated the assessment of the final two firms. After extensive debate, Deloitte was felt to display a greater ability to drive innovation and challenge for M&S and to implement more process automation, which in turn would drive value and improvements in the Company's control systems.

The Committee agreed to propose to the Board that Deloitte be appointed as Statutory Auditor following completion of the 2013/14 year-end process and that this appointment would be subject to shareholder approval at the AGM in July 2014.

The Committee would like to thank each firm that participated in the tender and specifically thank PwC on the Board's behalf for their significant contribution to M&S over the years.

Effectiveness of the External Auditor

The Committee believes the independence and objectivity of the external auditor and the effectiveness of the audit process are safeguarded and remain strong.

Despite the intended change of Statutory Auditor, the Committee believes it remains necessary to report on how we assessed the effectiveness of PwC for the 2013/14 period.

Towards the end of 2013, a top-tier accounting firm published a framework to assist companies in assessing the effectiveness of their external auditors. The framework is divided into 10 structured components setting out the key areas of the audit process for the Audit Committee to consider, as well as the role that management has contributed to an effective process.

The framework provides audit committees with a mechanism to encourage management to improve standards in a number of key areas. These include ensuring that information is presented with a culture of 'right first time', that the quality of management papers is high, that robust internal systems and controls are maintained, that the audit process is respected and valued by the management team, and that proposed audit adjustments are examined seriously. The Committee believes that this framework provides a robust process for monitoring auditor effectiveness now and which can be measured against the findings of future external auditor effectiveness surveys.

The Committee members were asked to complete a survey in March 2014. While the survey itself was felt to be detailed, there were areas where the Committee Chairman was felt to have greater visibility of the overall process as a result of his one-to-one meetings with the audit partner at PwC. This will be built upon in the coming year to ensure greater visibility for other committee members. Areas that were identified as being particularly strong were the timely manner in which significant audit and accounting issues were raised to the Committee and the strength and commitment of the engagement partner. Areas where the Committee believed the process for assessing the effectiveness of the external auditor could be improved will be discussed with the incoming audit firm and addressed over the coming months.

Non-audit fees

The business is very mindful of engaging the Statutory Auditor for non-audit services. A robust auditor engagement policy is in place and adhered to. It is reviewed annually and disclosed on the corporate website, marksandspencer.com/thecompany.

Last year's report highlighted two projects that had increased our non-audit fees higher than we would have preferred. One of these projects, integrated controls framework, bridged the 2012/13 and 2013/14 financial years, impacting the level of non-audit fees in both years. Alongside this, the Company's EU Group Relief Litigation claim was successful, recovering £18.5m of tax (plus interest), resulting in advisory fees payable to PwC. These fees were approved by the Audit Committee in prior years. For the 2013/14 financial year, the non-audit to audit services ratio was 0.83:1. Note 4 on page 98 provides further detail on non-audit service fees.

The Company is committed to providing greater transparency with its reporting where possible. Looking ahead at the 2014/15 financial year, business forecasting and planning indicates that non-audit fees will again be impacted by exceptional items, much of which are the direct result of the change in Statutory Auditor. Deloitte provided several non-audit services to the business prior to their appointment, most of which were complete by March 2014. Those that had not been completed are being tendered to another firm. Fees relating to these prior services are not included in the above ratio as Deloitte were not the Statutory Auditor for M&S at the time. However, fees for the ongoing services attributable to the new financial year will impact the non-audit to audit services ratio in 2014/15.

Furthermore, during 2013/14 Deloitte provided certain taxation services in relation to a claim for overpaid tax. If this claim is successful contingent fees will be payable to Deloitte, again impacting the non-audit to audit fee ratio.

The business is committed to maintaining non-audit fees at a lower level at the earliest opportunity. Equally, the Committee is mindful that non-audit fees should be kept to a minimum, therefore all further requests for Deloitte to undertake non-audit work during 2014/15 will be put to the Committee for approval, regardless of size.

Significant issues

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

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

The main areas of judgement that have been considered by the Committee to ensure that appropriate rigour has been applied are as follows:

Impairment of goodwill, assets and stores

The Committee has considered the assessments made in relation to the impairment of goodwill, brands and tangible fixed assets, including store assets. The Committee received detailed reports from management outlining the valuation methodology, the basis for key assumptions (discount rate and long-term growth rate) and the key drivers of the cash flow forecasts. The Committee has challenged these key assumptions and are satisfied that they are appropriate. The Committee has also understood the sensitivity analysis used by management in their review of goodwill and brand impairment. In addition, the business plans detailing management's expectations of future performance of the businesses are Board approved. The Committee is satisfied that no impairment of goodwill or brand is required and appropriate impairment of tangible assets have been recognised. See notes 14 and 15 to the financial statements for further information on these items.

Inventory valuation and provisioning

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

Presentation of the financial statements

The Committee gave consideration to the presentation of the financial statements and in particular the presentation of the non-GAAP measures in accordance with the Group accounting policy. This policy states that adjustments are only made to reported profit before tax where income and charges are one-off in nature, significant and distort the Group's underlying performance. In the current year, management have included profit on property disposal, one-off pension credits, interest income on tax repayments, restructuring costs, international store review, fair value movement of embedded derivative, strategic programme costs and the reduction in M&S Bank income for the impact of the financial product mis-selling provision within this category. The Committee has concluded that this presentation is appropriate. See note 5 to the financial statements for further information on the nature of these items.

Retirement benefits

The Committee has reviewed the actuarial assumptions such as discount rate, inflation rate, expected return of scheme assets and mortality, which determine the pension cost and the UK defined benefit scheme valuation, and has concluded that they are appropriate. The assumptions have been disclosed in note 11 to the financial statements.

Revenue recognition in relation to refunds, gift cards and loyalty schemes

Revenue accruals for sales returns and deferred income in relation to loyalty scheme redemptions and gift card and credit voucher redemptions are estimated based on historical returns and redemptions. The Committee has considered the basis of these accruals, along with analysis of historical returns and redemption rates and has agreed with the judgements reached by management.

Each of the above areas of judgement have been identified as areas of focus and therefore the Committee has also reviewed detailed reporting from the external auditor, PwC.

Fair, balanced and understandable

Towards the end of the 2013/14 financial period, the Committee had discussed what information and level of debate and insight it would need in order to satisfy members that financial information was fair, balanced and understandable.

At the request of the Board, the Committee has considered whether, in its opinion, the 2013/14 Annual Report and Accounts is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Committee was provided with a draft copy of the Annual Report early in the drafting process in order to assess the broad direction and key messages being communicated. The Committee received a further draft some two weeks prior to the meeting at which it would be requested to provide its final opinion. Committee members provided feedback highlighting any areas where they believed further clarity was required. This feedback was incorporated into the draft report provided to the Audit Committee meeting for final comment and approval.

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

Is the report fair?

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

Is the report balanced?

- Is there a good level of consistency between the narrative reporting in the front and the financial reporting in the back of the report and do you get the same message when you read them independently?
- Is the Annual Report properly a document for shareholders?
- Are the statutory and adjusted measures explained clearly with appropriate prominence?
- Are the key judgements referred to in the narrative reporting and the significant issues reported in this Audit Committee Report consistent with the disclosures of key estimation uncertainties and critical judgements set out in the financial statements? How do these compare with the risks that PwC is planning on including in their report?

Is the report understandable?

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

Following its review, the Committee was of the opinion that the 2014 Annual Report is representative of the year and presents a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's performance, business model and strategy.

Andy Halford
Audit Committee Chairman

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 2013/14. Where areas for improvement were identified, processes are in place to ensure that the necessary action is taken and that progress is monitored. Further details of this process can be found within our full and detailed response to the Code, provided within the corporate governance section of marksandspencer.com/thecompany

Furthermore, the Committee considers the Group 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 Group's performance, business model and strategy.

This year details on our Risk Management have been provided within the Strategic Report section of this document. This can be found on pages 15 to 17 and page 44. It should be noted that our risk management systems are designed to manage rather than eliminate risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

"We will ensure that our Board composition continues to be appropriately balanced."

Robert Swannell
Chairman of the Nomination Committee

In my overview last year, I highlighted the significant focus on increasing the number of women on Boards by companies and regulators around the world. When our 2013 Annual Report was published in June 2013, female representation on our Board was at 21%. This year I am pleased to report that, following our 2014 AGM, female representation on our board will be over 30%. Although we are pleased with this achievement, we believe that diversity should be considered in its broadest sense, encompassing experience and background. Our progress against our Board diversity policy is outlined on page 51. As the Board continues to work towards transforming the business into an international, multi-channel retailer, we will ensure that our Board composition retains an appropriately balanced range of skills, experience and technical ability so that we are well placed to achieve our objectives and longer-term strategy.

During the year, the composition of the Board and its Committees has been refreshed. Some of these changes were communicated to shareholders in last year's report. On 21 May 2013, we announced that Steven Sharp, Executive Director, Marketing would be retiring after nine years with the business. Steven stepped down from the Board on 8 July 2013 following the AGM, remaining as Creative Director until 28 February 2014. Steven's continued employment facilitated a smooth transition and induction for his successor, Patrick Bousquet-Chavanne, who was appointed Executive Director, Marketing and Business Development in July 2013.

Andy Halford, who joined the Board as a non-executive director in January 2013, succeeded Jeremy Darroch as Chairman of the Audit Committee in June 2013, following Jeremy's retirement. Andy has since been appointed as a member of the Remuneration Committee with effect from 1 May 2014.

Last year, we also announced that Steven Holliday, non-executive director and Chairman of our Remuneration Committee, would be stepping down from the Board following the 2014 AGM. Vindi Banga, who joined the Board as a non-executive director in September 2011, will succeed Steven as Chairman of the Remuneration Committee, having sat as a member of the Committee since his appointment. Steven provided the business with a significant period of notice prior to his departure, ensuring that he would have the opportunity to assist the Company with the induction of his replacement, as well as liaise with investors ahead of the remuneration policy

Board activity 2013/14

Who is on our Nomination Committee

The Committee comprises the Chairman, independent non-executive directors and the Chief Executive. Terms of reference are available to view at **marksandspencer.com/thecompany**.

Name of Director	Date appointed	A	B	Percentage of Meetings attended
Robert Swannell (Committee Chairman)	4 Oct 2010	5	5	100%
Marc Bolland	1 May 2010	5	5	100%
Vindi Banga	3 Sept 2011	5	5	100%
Alison Brittain (appointed 1 January 2014)	1 Jan 2014	2	2	100%
Miranda Curtis	3 Feb 2012	5	5	100%
Jeremy Darroch[1]	1 Sept 2006 to 19 June 2013)	2	2	100%
Martha Lane Fox	1 June 2007	5	5	100%
Andy Halford	1 Jan 2013	5	5	100%
Steven Holliday (Resigns 8 July 2014)	15 July 2004 to 8 July 2014)	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. Jeremy Darroch was a member of the Committee until 19 June 2013 when he resigned from the Board.

What has the Committee done during the year?

- We continued to refresh and review non-executive director tenure and skill set to ensure appropriate mix and diverse experience. As part of this, we agreed the process, timetable, shortlist and final recommendation for the appointment of Alison Brittain and discussed the appointment renewal for Robert Swannell;
- We continued to support succession and development of the executive directors. As part of this, we reviewed and recommended the appointment of Patrick Bousquet-Chavanne to succeed Steven Sharp, and implemented development initiatives for senior executives, including international business school training, executive coaching, and non-executive director mentor programme;
- Committee members also participated in several employee-focused initiatives, giving increased access across the organisation, direct employee feedback and greater visibility of high potential talent; and
- We also continued to look at ongoing business insight needs and development for all directors.

What is the action plan for 2014/15?

- Continue to review succession plans for the Board and key roles across the business;
- Continue to identify future talent pipeline;
- Review development initiatives for directors; and
- Develop programme for wider business exposure for non-executives.

being put to a shareholder vote, in line with regulatory requirements, at the AGM in July. Steve leaves the company with our best wishes and utmost gratitude for his many years of service.

The final change to the composition of our Board and Committees this year was the addition of Alison Brittain, who joined the Board as a non-executive director on 1 January 2014. Alison was also appointed as a member of the Audit Committee with effect from 11 March 2014, ahead of Steven Holliday's departure in July.

Board Diversity Policy 2014
We launched the Board diversity policy in 2012 with the intention of ensuring that diversity, in its broadest sense, remains a central feature of the Board. Since setting out our ambitions and objectives, the Board has made some positive steps in broadening the diversity not just of the Board, but of our senior management. We have reported against each of our policy objectives below and, in 2014, the Board intends to review the policy to ensure that it continues to drive the benefits of a diverse Board and workforce across the business.

Maintain a level of at least 30% female directors on the Board over the short to medium term
We have made good progress refreshing the Board during the year, which has resulted in an increase in the proportion of female directors on the Board, from 21% at the end of March last year to 29% in March this year. This will increase further to 31% in July, when Steven Holliday steps down from the Board.

We remain committed to at least maintaining this level of female representation in the medium-term, whilst ensuring that diversity in its broadest sense remains a central feature of the Board. That said, the Nomination Committee will continue to recommend appointments to the Board based on merit and we remain opposed to mandatory quotas. Despite the progress that has been made, the Committee is conscious that the increase in the proportion of women on our Board has been driven largely by the appointment of non-executive directors. The Board remains committed to strengthening the pipeline of senior female executives within the business and has taken steps to ensure that there are no barriers to women succeeding at the highest levels within M&S.

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
Strengthening the pipeline of executive talent in the Company has remained a key focus during the year. We are continuing to learn and build on existing programmes while introducing new initiatives to build, broaden and develop the significant talent which exists across the business.

Details of key initiatives include:

– A comprehensive talent review presented to the Board annually, mapping successional candidates and opportunities across all senior roles within the business;
– The Leadership Development Service has continued to identify and partner key senior talent across the business, broadening their skills set and experience to ensure that they are well placed for future opportunities. This has been encouraged through greater boardroom exposure, non-executive and Trustee roles outside of M&S, and participation in mentoring programmes;
– Access to International Business School training; and
– Senior management mentoring and coaching schemes, including non-executive director sponsored lunches and breakfasts.

Consider candidates for appointment as non-executive directors from a wider pool, including those with little or no listed company board experience
The Nomination Committee spends a great deal of its time evaluating the Board's successional needs, working closely with our executive search agency, JCA, in drawing up long and short lists of candidates. As part of the search for our most recent non-executive director, Alison Brittain, we identified and interviewed a variety of candidates from a range of backgrounds and industries, to ensure that we had exposure to a wide selection of individuals. Whilst we do not currently openly advertise our non-executive director positions, we recognise the merit of taking a combined approach and will keep this under review.

Ensure 'long lists' of potential non-executive directors include 50% female candidates
The Board remains committed to ensuring that high performing women from a variety of backgrounds who have the requisite skills, are given exposure to the Nomination Committees of FTSE 100 companies. This year, the Board again met its commitment, and all non-executive director long lists in 2013/14 therefore included 50% female candidates.

Only engage executive search firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice
The Board continues to support the principles of the Executive Search Firms Voluntary Code of Conduct on gender diversity, demonstrated by remaining committed to only engaging executive search firms who are signatories to this code. We continued to work closely with JCA during the year, and remain committed to maintaining our targets and ambitions around 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 has made some significant progress against the key policy objectives during the year, as highlighted above. During the year, the business has continued to embrace all forms of diversity with the introduction or continuation of a number of initiatives:

– The annual Board evaluation process includes an assessment of the Board's diversity including gender, helping to objectively consider its composition and effectiveness;
– Launched *M&S Inspiring Women* – a network to support the progress of women in our business, giving access to a range of role models, providing informal mentoring and networking opportunities, and creating a forum for discussion to explore and address the career challenges women face;
– Signed up to the 30% Club female mentoring scheme;
– The MBA Leadership Programme is in its third year, recruiting and developing talented MBA graduates from international business schools; to date intake into the programme has been over 50% women;
– Gaining a better understanding of the longer-term causes of under representation of women at particular management levels across the business; and
– A number of programmes to help people in our communities, including *Marks & Start*, *Marks & Start Logistics and Make Your Mark* are successfully helping young people, the homeless, lone parents and those with disabilities to find work in our stores and distribution 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. Full details of how we have progressed during the year and full details of the 2014/15 Action plan are on page 43. We remain committed to getting the right balance of internal versus external hires and work towards understanding and managing some of the challenges we face, such as:

– Obtaining visas for international candidates outside of Europe; and
– Any main issues women face to reach regional management positions and above, within the business.

Remuneration
Overview

"Our remuneration framework is designed to ensure the long-term sustainable success of M&S."

Steven Holliday
Chairman of the Remuneration Committee

On behalf of the Board, I am pleased to introduce our 2014 Remuneration Report. The report is split into two distinct sections and in accordance with the new regulations, you will be asked to vote separately on these reports at our AGM in July 2014.

Our remuneration framework is designed to ensure our business is run by high-quality leaders with the skills and expertise necessary to support the delivery of our business priorities. We believe that the remuneration policy which you approved in 2011 continues to remain appropriate. As a result, while our remuneration report has changed this year, our remuneration framework has remained consistent with what was introduced at that time.

Strategic alignment of executive remuneration
The Committee believes that a well-designed remuneration policy supports and drives the business strategy. Three years ago, we began our transformation programme to modernise M&S from being a traditional British retailer to a multi-channel, international one. Stretching performance measures in our Annual Bonus Scheme and Performance Share Plan reflect the targeted delivery of our key business priorities, such as the efficient investment in store environments, IT systems, our distribution network and the launch of the new M&S.com platform.

Our remuneration framework is designed to motivate and reward decisions which will ensure the long-term sustainable success of M&S while also striving for excellent results. For example, a significant part of performance-related pay is delivered through shares, three years from grant. This maintains the principle that our leaders have significant long-term investment in our business, aligned with our shareholders.

Key remuneration points for the year
While salaries for all employees in the UK were increased on average by 2%, the executive directors requested not to be considered for any salary increase.

The Committee believes in pay for performance, and ensures that targets set are stretching and linked to those measures necessary to ensure the long-term success of M&S. Annual bonus measures are primarily financial, but also include a number of non-financial measures in order to ensure a balanced view of the Company's performance. While each director made good progress against their individual objectives, the Underlying Group Profit Before Tax (PBT) achieved was below the threshold target set by the Committee and so no bonus was therefore payable in respect of financial or individual targets.

Performance Share Plan awards granted in 2011 were measured for the three-year period up to 29 March 2014 against challenging Earnings Per Share (EPS), Return on Capital Employed (ROCE) and Revenue targets. As a result of performance against these targets, executive directors will receive only 7.6% of the original award; these will vest in July 2014.

Minor amendments proposed to remuneration arrangements for 2014/15
To ensure we continue to align our remuneration arrangements with the Company's future strategic priorities and stakeholder views, we are proposing some minor amendments this coming year. These are discussed at length on pages 65, 67 and 70, but in summary:

- Awards under the Annual Bonus Scheme will remain capped at 200% of salary, with 50% of any award being deferred into shares for three years.
- 60% of the bonus will continue to be measured against profit targets, but for our trading directors, this will now be split equally between Group performance and the performance of their individual business unit.
- We have also simplified the measures used in the Annual Bonus Scheme, reducing the number of individual performance measures from four to three but giving each an increased weighting. The Committee believes this targeted focus on our key strategic priorities will support and drive the focus on the turnaround of General Merchandise and the ongoing success of our Food business.
- Reflecting that Plan A (our environmental and ethical plan) is an integral driver of how we do business at M&S, success against Plan A targets will now act as an underpin to the bonus scheme.

Should there be a significant variance to our Plan A achievements versus objectives, the Committee shall have discretion to adjust individual payments accordingly. Further details on this are provided on page 65. This will ensure that achievement against the performance measures will not be to the detriment of our ethical and environmental principles.

- The performance targets for the 2014/15 Performance Share Plan were reviewed to ensure they remain stretching, and incentivise and challenge executive directors. Following feedback from shareholders, the EPS target range will remain unchanged as will the Revenue target ranges for our UK and International businesses. The ROCE range has been narrowed leaving the threshold target the same. The target range for Multi-channel Revenue has been increased, reflecting our aspirations for this part of the business.
- We listened to shareholder feedback and have this year increased the existing shareholding requirements to require executive directors to hold 150% of salary and 250% for the Chief Executive Officer. We believe this is an appropriate level of shareholding when compared with other UK companies of our size.

As previously announced, I will be stepping down from my position of Remuneration Committee Chairman at this year's AGM and will be succeeded by Vindi Banga. I have appreciated my time on the Board of M&S and my role as Chairman of the Committee.

The Committee has valued the engagement with, and support of, shareholders and we remain focused on setting demanding incentive targets and disclosing details of both performance and objectives each year. Together with the rest of the Board, Vindi and I look forward to hearing your views on our remuneration arrangements and will be available to answer any questions you may have at the AGM.

Steven Holliday
Chairman of the Remuneration Committee

This report has been prepared in accordance with the relevant provision of the Companies Act 2006 and on the basis prescribed in the large and medium-sized Companies and Groups (Accounts and Report) (Amendments) Regulations 2013 (the Regulations). Where required, data has been audited by PricewaterhouseCoopers LLP and this is indicated appropriately.

Directors' remuneration policy

This report sets out the Company's policy on remuneration for executive and non-executive directors, and will be proposed for approval by shareholders at the AGM on 8 July 2014. The policy remains unchanged from that disclosed in recent financial years. It will take effect from 8 July 2014 and may operate for up to three years.

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

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

Executive directors

Remuneration policy: policy table

Element, purpose and link to strategy	Operation
Base salary To attract, retain and motivate high calibre executives needed to deliver our strategy and drive business performance.	– Payable in cash. – Reviewed annually by the Committee considering a number of factors, including: – Salary increases awarded to other employees in the wider workforce; and – Comparable salaries in appropriate comparator groups (e.g. major retailers, our peer group of FTSE 25-75 companies etc.). – Salaries reflect the experience, responsibility and contribution of the individual and role within the Group. – Salaries for all employees are typically reviewed annually on a similar basis.
Benefits To provide market competitive benefits which drive employee engagement and commitment in our business.	– Directors are eligible to receive benefits in line with our policies which may include: – A car or cash allowance; – A driver; and – Life assurance. – Where appropriate, our Global/Domestic Mobility Policy may apply. This may include, but not be limited to travel, relocation and tax equalisation allowances. – All employees, including directors, are also offered a number of other benefits such as employee discount and salary sacrifice schemes such as Cycle2Work. – Directors are able to participate in a Save As You Earn Scheme and/or a Share Incentive Plan and any other all employee share schemes on the same terms as other employees.
Pension benefits To attract and retain high calibre executives through a commitment to responsible, secure retirement funding in line with our Company values.	– Directors may participate in the Your M&S Pension Saving Plan (a defined contribution arrangement) or receive a cash supplement in lieu of pension contributions into this scheme. – Directors who are members of the Marks & Spencer UK Pension Scheme (a defined benefit arrangement, closed to new entrants) will accrue benefits under that scheme.
Annual Bonus Scheme including Deferred Share Bonus Plan (DSBP) To drive annual profitability, strategic change and individual performance in line with our business plan. To recognise and reward individual contributions to the way we do business. The deferral into shares provides alignment with shareholders' long-term interests following the successful delivery of short-term targets.	– Directors are eligible to participate in this non-contractual, discretionary Scheme. – Payments are made subject to the satisfaction of predetermined targets set at the start of the year, as approved by the Committee. – Not less than 50% of any bonus earned is paid in deferred shares under the DSBP, with the remainder payable in cash. – Deferred shares vest after a period of three years subject to continued service, but no further performance conditions. – Malus provisions, good leaver and change of control provisions apply to the deferred shares (see page 59). – The value of any dividends during the deferred period will be payable (see the explanatory notes on page 56). – The Committee retains the right to exercise discretion, both upwards and downwards, to ensure that the level of award payable is appropriate and fair in the context of the director's individual performance and the Company's overall performance. Where exercised, the rationale for this discretion will be fully disclosed to shareholders in the subsequent Annual Report. – All employees are eligible to participate in a bonus scheme measured against Group financial/local targets and/or individual performance. For the most senior managers, part of the bonus earned is paid in deferred shares under the DSBP.
Performance Share Plan (PSP) Measured against the key financial drivers of our business plan to deliver sustainable value creation. To encourage long-term shareholding to retain directors, and provide greater alignment with shareholders' interests.	– The Company's principal long-term incentive scheme, first approved by shareholders in 2005. – Directors are eligible to participate in this non-contractual, discretionary Plan. – Directors may receive an annual award which vests after three years subject to predetermined performance conditions. – Malus provisions, good leaver and change of control provisions apply (see page 59). – The value of any dividends during the vesting period will be payable (see the explanatory notes on page 56). – A significant proportion of the most senior managers may be invited to participate in the PSP, on similar terms as the executive directors.

Maximum opportunity	Performance conditions
– Whilst there is no set maximum, any increases are normally in line with those in the wider workforce. – Individual adjustments in excess of this may be made outside of this cycle at the discretion of the Committee, where appropriate. Such circumstances can include: – Where the role scope has changed; – Where comparable salaries in the external market have changed; or – To apply salary progression for newly appointed directors.	N/A
– Whilst there is no set maximum, any benefits will be provided at a rate commensurate with the market. – Maximum participation in all-employee share schemes is in line with local statutory limits.	N/A
– A maximum of 25% of salary for executive directors or 30% of salary for the CEO.	N/A
– A maximum annual potential of up to 200% of salary.	– Quantifiable one-year performance measures and targets are set by the Committee around financial and individual objectives linked with the sustainable delivery of our business plan. – Financial performance measures comprise at least 50% of awards and may include, but not be limited to, Underlying Group Profit Before Tax (PBT). – Typically, no payment for individual objectives can be earned unless a 'threshold' level of PBT has been achieved. This threshold level is set by the Committee taking into account the previous year's performance and the business operating plan for the current year. – For threshold performance, up to 40% of maximum bonus potential may be payable for the achievement of individual objectives.
– The maximum value of shares (at grant) which can be made under an award to an individual in respect of a financial year is 300% of salary.	– Performance is measured over a three-year period against a balanced scorecard of financial measures which currently include Revenue, Earnings Per Share (EPS) and Return on Capital Employed (ROCE) chosen as those measures which support and drive top-line and bottom-line performance in line with business strategy. – The measures are currently weighted towards EPS. – The threshold level of vesting is 20% of the maximum. – For performance between threshold and maximum, awards vest on a straight-line basis.

Directors' remuneration policy continued

Policy table continued

Executive directors may be in receipt of awards under share plans outside of the current remuneration framework detailed on pages 54 to 55; these may have been awarded upon recruitment or prior to their appointment as an executive director. While awards under these plans do not form part of an executive director's annual remuneration, for transparency, details of the plans are set out in the table below.

Element, purpose and link to strategy	Operation	Maximum opportunity	Performance conditions
Restricted Share Plan (RSP) To enable the recruitment of key directors who are necessary to the delivery of business strategy.	– Restricted awards may be granted for the recruitment of directors. – Awards vest after a restricted period, which can vary by award but is typically between one and three years. – Malus provisions, good leaver and change of control provisions apply (see page 59). – The value of any dividends during the restricted period will be payable (see explanatory notes below).	– Whilst there is no maximum set in the rules, the Committee considers the scale and structure of awards on an individual basis.	– The Committee may choose to apply no formal performance conditions save for continued service.
Executive Share Option Scheme (ESOS) Measured against the key drivers of our business plan to deliver sustainable value creation. To encourage long-term shareholding to retain directors, and provide greater alignment with shareholders' interests.	– Approved by shareholders and HMRC in 2005, the Committee may choose to award share options to directors if appropriate. – Malus provisions, good leaver and change of control provisions apply (see page 59). – Options are normally exercised between the third and tenth anniversaries of grant, subject to the achievement of any performance conditions set by the Committee.	– Awards are capped at 250% of salary in respect of any financial year of the Company but in recruitment circumstances awards may be granted up to a higher limit of 400% of salary.	– Awards vest subject to at least three-year predetermined performance conditions.

Explanatory notes

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

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

The Committee reserves the right to make any remuneration payments notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before this policy was in force or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration of the individual becoming a director of the Company. For these purposes, payments include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

Awards granted under the PSP, DSBP and RSP can be made in the form of conditional share awards, forfeitable shares, options or rights with the same economic effect. In addition, awards may be settled in cash. Awards may incorporate the right to receive (in cash or shares) the value of dividends, including any dividend tax credit, between grant and vesting on the shares that vest. This amount may be calculated on a cumulative basis, assuming the reinvestment of dividends into shares.

In the event of a variation of the Company's share capital or a demerger, special dividend or other event which in the Committee's opinion may affect the price of shares, the Committee may alter the terms of awards and the number of shares subject to them. The terms of awards may be amended in accordance with the relevant plan rules (which in the case of the PSP and the ESOS were approved by shareholders on 13 July 2005).

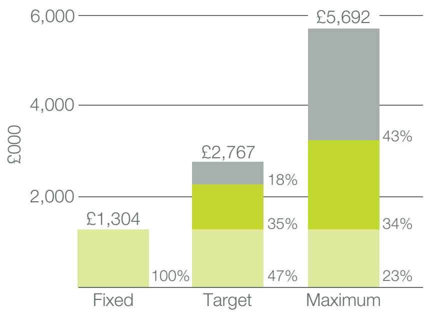
Any performance conditions applicable to PSP and ESOS awards may be amended by the Committee if an event occurs which causes it to consider that the performance condition would not achieve its original purpose and the amended performance condition is, in the opinion of the Committee, no less difficult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

Application of the remuneration policy

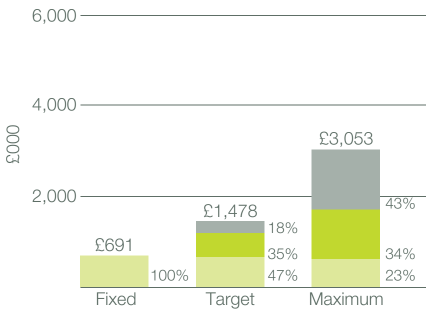
The charts below provide an illustration of what could be received by each of the executive directors in the first year to which the current remuneration policy applies as previously described.

These charts are illustrative as the actual value which will ultimately be received will depend on business performance in the year 2014/15 (for the cash element of the bonus scheme) and in the three-year period to 2016/17 (for the PSP), as well as share price performance to the date of the vesting of the share element of the bonus scheme and PSP awards in 2017.

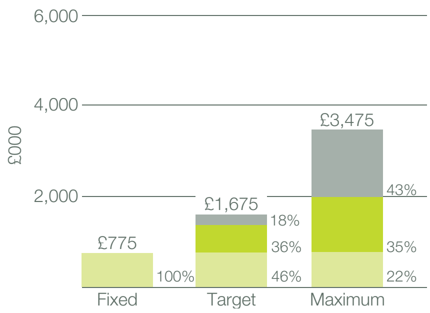
Marc Bolland



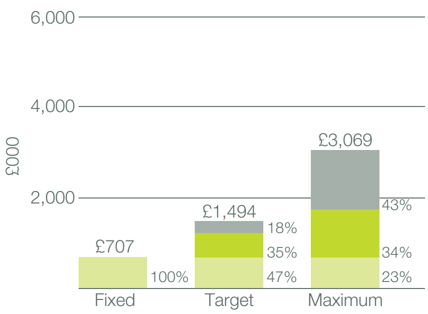
Patrick Bousquet-Chavanne



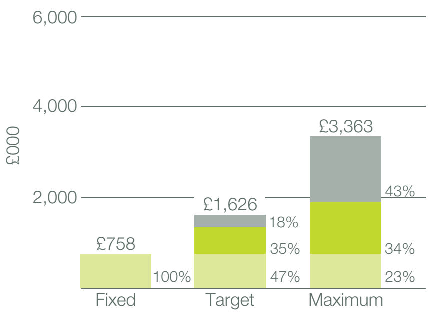
John Dixon



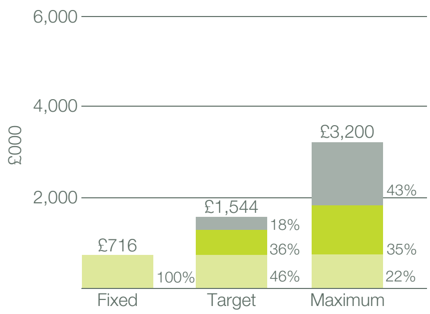
Steve Rowe



Alan Stewart



Laura Wade-Gery



Key	Assumptions
	Includes all elements of fixed remuneration: – Base salary (for 2014, as shown in the table on page 63); – Pension benefits (using the salary supplement policy on pages 54 to 55, for applicable individuals, also inclusive of a value reflecting deferred participation in the Company's defined benefit arrangements); and – Benefits (using the value for 2013/14 included in the single figure table on page 62).
	Annual Bonus Scheme: Represents the potential value of the annual bonus for 2014/15. Half of any bonus would be deferred into shares for three years and this is included in the value shown. No share price growth is assumed.
	PSP represents the potential value of the PSP to be awarded in 2014, which would vest in 2017 subject to the performance against the EPS, Revenue and ROCE targets (disclosed on page 67). No share price growth is assumed.
Fixed	Fixed remuneration only. No vesting under the Annual Bonus Scheme and PSP.
Target	Includes the following assumptions for the vesting of the incentive components of the package: – Annual Bonus Scheme: 50% of maximum – PSP: 20% of maximum
Maximum	Includes the following assumptions for the vesting of the incentive components of the package: – Annual Bonus Scheme: 100% of maximum – PSP: 100% of maximum

Directors' remuneration policy continued

Recruitment policy

The table below sets out the Company's policy on the recruitment of new executive directors. Similar considerations may also apply where a director is promoted within the Board.

In addition, the Committee in exceptional circumstances has discretion to include any other remuneration component or award which it feels is appropriate taking into account the specific circumstances of the individual, subject to the limit on variable remuneration set out below. The rationale for any such component would be appropriately disclosed. For example, for internal promotional appointments to the Board, the Committee would honour any pre-existing contractual remuneration arrangements; these arrangements may be outside of the policy detailed on pages 54 to 55.

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

Service contracts

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

Termination policy

The Company may terminate the contract of any executive director summarily in accordance with the terms of their service agreement, on payment in lieu of notice of a sum equal to salary, benefits and pension as per their contractual notice entitlement (see page 72). The Company can make a series of phased payments which are paid in monthly instalments and subject to mitigation. This mechanism allows for the amount of any phased payments to be reduced by the income from any alternative position secured by the former director during the phased payments period.

Service agreements may be terminated without notice and without any payments in certain circumstances, such as gross misconduct. The Company may require the individual to work during their notice period, or may choose to place the individual on garden leave. Such a decision would be made to ensure the protection of the Company's and shareholders' interests where the individual has had access to commercially sensitive information.

The table below sets out key provisions for directors leaving the Company under their service contracts and the incentive plan rules.

Element	Termination policy
Salary, benefits and pension benefits	Payment will be made up to the termination date in line with relevant contractual notice periods.
Annual Bonus Scheme	There is no contractual entitlement to annual bonus. Should a director be under notice or not in active service at either the relevant year end or on the date of payment, awards (including any outstanding unvested deferred bonus shares) may lapse. The Committee may use its discretion as described below to make a bonus award, which is normally prorated for time and based on performance assessed at the end of the bonus period.
Long-term incentive awards	Where a director ceases to be an officer or employee of the Group, before the end of the relevant period, the treatment of outstanding awards is determined in accordance with the plan rules. In some circumstances, where a director leaves due to retirement, injury, ill-health, death or the sale of the director's employing company or business out of the Group, or any other reason at the discretion of the Committee and in accordance with the plan rules, DSBP awards normally vest in full on cessation; PSP and ESOS awards which have been held for at least 12 months normally vest when the level of performance has been assessed and agreed at the end of the three-year performance period. The Committee may determine these awards vest upon cessation as permitted in the plan rules. In either circumstance, any relevant performance conditions would still apply to the PSP and ESOS awards and, unless the Committee determines otherwise, would be time prorated.
Repatriation	Where a director has been recruited to the Company from overseas, the Company may pay for repatriation.
Legal expenses and outplacement	The Company may reimburse for reasonable legal fees in the event a director leaves by mutual consent. It may also pay for professional outplacement services in these circumstances.

The Company's policy toward exit payments allows for a variety of circumstances whereby a director may leave the business. In some cases, where deemed suitable, the Committee reserves the right to determine exit payments, where the director leaves by mutual agreement. In all circumstances, the Committee does not intend to 'reward failure' and will make decisions based on the individual circumstances. The Committee's objective is that any such agreements are determined on an individual basis and are in the best interests of the Company and shareholders at that time, and reflect the director's contractual and other legal rights.

Corporate events

In the event of a change of control or winding-up of the Company, unvested share awards will normally vest on the date that the Board notifies participants of such an event. The number of shares which may vest under awards in these circumstances will be subject to any relevant performance conditions and, in the case of PSP awards, unless the Committee determines otherwise, time prorating.

In the event of a demerger, special dividend or other event which, in the opinion of the Committee affects the price of shares, the Committee may allow some or all of an award to vest.

Malus provisions

All share awards granted in 2013 onwards are subject to malus provisions. These provisions allow the Committee, in its absolute discretion, to determine at any time prior to the vesting of an award to reduce the number of shares, cancel an award or impose further conditions on an award in circumstances which the Committee considers such action to be appropriate. Such circumstances may include, but not be limited to, a material misstatement of the Company's audited results.

Consideration of wider workforce pay

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

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

Directors' remuneration policy continued

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

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

Consideration of shareholder views

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

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

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

During the year, the Committee consulted with shareholders regarding the minor amendments made to the implementation policy as detailed on page 77 of the Annual Report on Remuneration.

Non-executive directors

Remuneration policy: policy table

The table below sets out our policy for the operation of non-executive director fees and benefits at the Company.

Element, purpose and link to strategy	Operation
Chairman's fees To provide a fair fee at a level that attracts and retains a high-calibre Chairman.	– Paid in equal monthly instalments; may be made in cash and/or shares. – Fees are determined by the Remuneration Committee. – Fees reflect the time commitment, demands and responsibility of the role. – Reviewed annually, taking into account market practice in appropriate comparator groups e.g. major retailers, our peer group of FTSE 25-75 companies etc.
Non-executive director basic fee To provide a fair basic fee at a rate that attracts and retains high-calibre non-executive directors.	– Fees are paid in equal monthly instalments and may be made in cash and/or shares. – Fees are determined by the Chairman and executive directors. – The fee level recognises the scope of the role and time commitment required. – Reviewed annually taking into account market practice in appropriate comparator groups (e.g. major retailers, our peer group of FTSE 25-75 companies etc.). – The maximum aggregate fees for non-executive directors, including the Chairman, is £750,000 p.a., as set out in the Company's Articles of Association.
Additional fees To provide compensation to non-executive directors taking on additional Board responsibility.	– Additional fees are paid for extra responsibilities undertaken by non-executive directors for the role of Board Chairman, a Committee Chairman or the Senior Independent Director role.
Benefits To facilitate the execution of responsibilities and duties required by the role.	– In addition to the annual fee, the Chairman is entitled to the use of a car and driver. – In line with other employees, the Chairman and non-executive directors receive employee product discount. No other benefits are provided. – The Chairman and non-executive directors do not participate in pension or performance-related schemes.

Recruitment policy

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

Element	Recruitment policy
Fees	The Committee takes into account a number of factors when determining an appropriate fee level for the Chairman. The CEO and executive directors determine appropriate fee levels for the non-executive directors. This consideration includes the time commitment and responsibility of the individual role and market practice in appropriate comparator groups.
Benefits	The Company may offer benefits to the Chairman set in line with our policy as detailed on page 60.

Agreements for service

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

Report on Directors' remuneration

The following pages detail the implementation of the directors' remuneration policy (as described on pages 54 to 55) during the year and for the forthcoming year. For ease of comparison, the future implementation of each element of the policy is set alongside the arrangements for the reporting year.

Executive directors

How is the senior remuneration framework aligned to Company strategy?

The Committee annually reviews the senior remuneration framework and considers whether the existing incentive arrangements remain strongly challenging in the context of the business strategy, current external guidelines and a range of internal factors including the remuneration policy and pay arrangements throughout the rest of the organisation.

Incentive plans are designed to both take account of risk and drive behaviours in line with the Company's high ethical standards. Plan A (the Company's environmental and ethical plan) underpins the way in which we do business and this is similarly reflected in the directors' pay arrangements.

What are the details of total remuneration?

The executive directors' 'single figure' of remuneration for 2013/14 and 2012/13 (audited)

	Year	Salary £000	Benefits[4] £000	Total Bonus[5] £000	Total PSP vested[6] £000	Pension benefits[7] £000	**Total £000**
Marc Bolland	2013/14	975	41	–	278	293	**1,587**
	2012/13	975	45	829	–	293	**2,142**
Patrick Bousquet-Chavanne[1]	2013/14	380	29	–	–	95	**504**
	2012/13	–	–	–	–	–	**–**
John Dixon	2013/14	600	46	–	154	150	**950**
	2012/13	581	43	546	–	145	**1,315**
Steve Rowe[2]	2013/14	525	53	–	83	131	**792**
	2012/13	263	29	221	–	66	**579**
Steven Sharp[3]	2013/14	190	21	–	–	47	**258**
	2012/13	679	36	531	–	170	**1,416**
Alan Stewart	2013/14	579	34	–	157	145	**915**
	2012/13	570	33	492	–	143	**1,238**
Laura Wade-Gery	2013/14	552	26	–	180	138	**896**
	2012/13	544	24	469	–	136	**1,173**

1. The amounts shown reflect that Patrick Bousquet-Chavanne joined the Board on 10 July 2013.
2. The amounts shown for 2012/13 reflect that Steve Rowe joined the Board on 1 October 2012.
3. The amounts shown reflect that Steven Sharp retired from the Board on 9 July 2013. His 2011 PSP award vested on 20 May 2014 and is therefore not included in the above table. For transparency, the estimated vesting value of this award including dividend equivalents is £187,000. Further details of this award are shown on page 69.
4. Benefits include the value of car allowance and intrinsic value of SAYE in addition to the taxable value of car, driver and life assurance, as applicable to each director and as described on page 63.
5. Half of any award will be deferred into Company shares for a period of three years. As the threshold PBT target for 2013/14 was not met, no payments were made. Further details of the 2013/14 Annual Bonus Scheme are shown on pages 63 to 65.
6. The award vesting in 2013/14 was based on three-year performance to 29 March 2014. Further details of the vesting of this award are shown on page 66. As these awards do not vest until after the end of the financial year, estimation is made of the vesting value using the three-month average share price from 1 January 2014 – 29 March 2014. This value also includes the anticipated value of dividend equivalents which will be payable in July 2014. These estimated figures will be restated in next year's report.
7. Pension benefits comprises the value of cash provided in lieu of participation in the Your M&S Pension Saving Plan.

The following sections set out additional disclosure regarding each of the components set out in the above 'single figure' table.

Salary (audited)

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

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 2013/14, which the Committee agreed. The other executive directors similarly requested not to receive any increase in salary in 2013/14.

The table below details the executive directors' salaries as at 29 March 2014.

	Current annual salary £000	Change since March 2013 % increase
Marc Bolland	975	0%
Patrick Bousquet-Chavanne	525	–
John Dixon	600	0%
Steve Rowe	525	0%
Alan Stewart	579	0%
Laura Wade-Gery	552	0%

Benefits (audited)

Each executive director receives a car or car cash allowance and is offered the benefit of a driver. The Company also provides each director with life assurance. Executive directors receive employee product discount and are eligible to participate in salary sacrifice schemes such as Cycle2Work in line with all other employees.

Pension benefits (audited)

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

John Dixon and Steve Rowe are deferred members of the Marks & Spencer UK Pension Scheme. Details of the pension accrued by them during the year ended 29 March 2014 are shown below.

	Normal retirement age	Accrued pension entitlement as at year end[1] £000	Additional value on early retirement £000	Increase in accrued value £000	Increase in accrued value (net of inflation) £000	Transfer value of total accrued pension £000
John Dixon	60	137	0	4	0	2,297
Steve Rowe	60	145	0	4	0	2,457

1. The accrued pension entitlement is the deferred pension amount that the director would receive at age 60 if he left the Company on 29 March 2014. 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.

Annual Bonus Scheme

The Annual Bonus Scheme is designed to drive the delivery of the Company's strategy over the short and medium-term. The bonus potential for executive directors is up to 200% of salary for 'maximum' performance. Payments are delivered through a mix of cash and shares, the balance of which is determined annually by the Committee.

Shares are delivered in the form of nil-cost options/conditional shares under the Deferred Share Bonus Plan (DSBP) and vest after three years, subject to continued employment. In line with best practice, malus provisions apply to share awards granted from 2013 onwards.

The Committee reviews annually the performance measures, quantum and structure of the Scheme to ensure it remains an appropriate driver of Company performance. The scheme is structured to drive profitability and individual performance across the organisation.

In recent years, performance has been measured against Underlying Group Profit Before Tax (PBT) and individual objectives. Individual objectives and targets are set in line with the strategic priorities for each director's business area.

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

Report on Directors' remuneration continued

Annual Bonus Scheme for 2013/14 (audited)

In 2013/14, 60% of the executive directors' bonus was based on PBT performance and 40% was based on the achievement of four individual objectives, independent of PBT (but subject to achieving a 'threshold' PBT target). As detailed below, no payments were made in relation to financial or individual objectives for 2013/14.

PBT objective

PBT targets were set taking into account the Company's operating plan, external forecasts for the retail sector and analysts' profit forecasts. Targets were designed to be stretching in order to drive desired behaviours and increase motivation and focus. The final PBT performance was £623m which was below the threshold target set by the Committee. As a result, no bonus was payable under the PBT element of the Scheme. The Committee has a robust process in place to ensure that profit targets set are stretching. The Committee believes that the specific targets are commercially sensitive and therefore is unable to disclose them.

Individual objectives

Each director had four individual objectives for 2013/14, together accounting for 40% of the total bonus. These objectives reflected key areas of focus for the business and those relevant to each director's business area to ensure the strategic success of the Company. Two objectives were 'collective' i.e. individual targets set for each director under shared Plan A and costs objectives, encouraging a common focus and collaboration across the senior team. The remaining two objectives were business area individual objectives related to specific programmes to each director. The table below details some of these individual objectives.

	Examples of individual objectives – 2013/14	
	Collective (Plan A and costs)	Individual (business area)
Marc Bolland	– UK operating costs – 'Make Your Mark' youth employment programme	– Senior leadership capability
Patrick Bousquet-Chavanne	– Marketing operating plan costs – Garment shwopping volumes	– New in-store concepts
John Dixon	– GM gross margin – GM products with Plan A attributes	– GM market share
Steve Rowe	– Food gross margin – Food products with Plan A attributes	– In-store food availability
Alan Stewart	– Finance, IT and logistics operating plan costs – Carbon reduction in logistics	– New distribution centre efficiency
Laura Wade-Gery	– M&S.com operating profit – Plan A embedded in M&S.com	– Launch of new M&S.com website

As the threshold PBT level for the Scheme was not met, no bonus was payable for the individual objectives in 2013/14. However, the Committee has in place a robust process to assess the individual performance of each director. The table below illustrates the results of this assessment and the extent to which performance against the individual objectives was achieved. As the specific targets including those for PBT are considered to be commercially sensitive, they are not disclosed.

	Profit		Individual				
			'Collective'		Business area		
	PBT (60%)	Achievement against profit targets (60% of bonus)	Cost targets (10%)	Plan A targets (10%)	Individual targets (20%)	Achievement against individual objectives (40% of bonus)	**Total achievement (% of maximum bonus potential)**
Marc Bolland	Below Threshold	0%	Target – Maximum	Target – Maximum	Threshold – Target	19.5%	**19.5%**
Patrick Bousquet-Chavanne	Below Threshold	0%	Threshold – Target	Threshold – Target	Target – Maximum	19.0%	**19.0%**
John Dixon	Below Threshold	0%	Threshold – Target	Above Maximum	Threshold – Target	19.0%	**19.0%**
Steve Rowe	Below Threshold	0%	Target – Maximum	Above Maximum	Target – Maximum	30.0%	**30.0%**
Alan Stewart	Below Threshold	0%	Threshold – Target	Threshold – Target	Threshold – Target	19.0%	**19.0%**
Laura Wade-Gery	Below Threshold	0%	Threshold – Target	Threshold – Target	Target – Maximum	24.0%	**24.0%**

Key
- Below Threshold
- Threshold – Target
- Target – Maximum
- Above Maximum

Key
- Below Threshold
- Threshold – Target
- Target – Maximum
- Above Maximum

Annual Bonus Scheme for 2014/15

The Committee reviewed and approved minor amendments to the directors' Annual Bonus Scheme for 2014/15. Maximum bonus opportunity remains unchanged at 200% of salary.

The achievement of profit targets remains essential to M&S's success and as such, 60% of any bonus will continue to be measured against profitability targets. For executive directors with Group roles, this will continue to be a challenging PBT target. For those executive directors with business unit responsibility, 30% of any award will now be measured against PBT and 30% against profit targets for their business area. This change allows the Committee greater scope to drive and reward specific performance in the different areas of the business, while maintaining a shared focus on Group performance.

40% of a director's bonus opportunity will continue to be dependent on the achievement of key objectives specific to each director. For 2014/15, these objectives will be limited to three key objectives aligned to the delivery of the Company's short and medium-term strategy. The table below shows further details of the structure of this Scheme and provides examples of the personal objectives which each director will be measured against.

	Profit		Individual		
	PBT % bonus	Business Unit profit % bonus	Business Unit objectives % bonus	Examples of individual measures	
Marc Bolland	60%	–	40%	– Organisational development	– M&S.com performance
Patrick Bousquet-Chavanne	60%	–	40%	– New platform publishing house	– In-store visual merchandising
John Dixon	30%	30%	40%	– GM sales	– GM gross margin
Steve Rowe	30%	30%	40%	– Food sales	– Food proposition development
Alan Stewart	60%	–	40%	– Free cash flow	– Property portfolio
Laura Wade-Gery	30%	30%	40%	– M&S.com market share	– New distribution centre service delivery
	Achievement against Plan A objectives				

Plan A (our environmental and ethical plan) remains an integral driver of the way we do business; success against Plan A targets now underpins the entire bonus scheme. At the end of the year, the Committee will assess performance against all measures and will use its judgement to adjust overall payouts in line with overall Plan A performance, such as Plan A attributes within products and the success of specific Plan A initiatives.

Where possible, M&S seeks to report transparently on all aspects of the remuneration policy as long as this does not harm the Company's business operations. The Board considers the specific bonus targets for 2014/15 to be commercially sensitive because of the information it would provide to competitors and as such, they are not disclosed in this report. To the extent that the Committee is able, these targets and indicative performance against them will be disclosed in the following year.

Deferred Share Bonus Plan (audited)

Currently 50% of any bonus award is compulsorily deferred into shares. These deferred awards vest after three years (subject to continued employment and malus provisions). Further details of awards made in 2013/14, in respect of the 2012/13 Annual Bonus Scheme, are detailed in the table below.

	Face value of award[1, 2] £000	End of deferral period[3]
Marc Bolland	414	24/06/2016
Patrick Bousquet-Chavanne	114	24/06/2016
John Dixon	273	24/06/2016
Steve Rowe	220	24/06/2016
Steven Sharp	265	24/06/2016
Alan Stewart	246	24/06/2016
Laura Wade-Gery	235	24/06/2016

1. All awards shown above are made on the basis of 50% of the total bonus earned in relation to performance for the year ended 30 March 2013.
2. The face value of award is calculated as the number of nil-cost options/conditional shares awarded multiplied by the average mid-market share price on the five dealing days prior to the date of grant. For this year, the share price was calculated as £4.37, being the average share price between 17 June 2013 and 21 June 2013. Further details of these awards are shown in the table on pages 68 to 69.
3. Awards vest subject to continued employment on this date.

Report on Directors' remuneration continued

Performance Share Plan

The Performance Share Plan (PSP) is the primary long-term incentive for executive directors and senior managers. The maximum award opportunity under the plan rules is 300% of salary, although the Committee has typically referenced awards less than this limit, at 250% of salary. Malus provisions allowing the Committee to withhold or reduce payments under the scheme (as detailed on page 59) apply to all awards made in 2013 and thereafter.

The Committee reviews the performance conditions and targets of the plan annually to ensure that they remain challenging, appropriate and a driver of business strategy. In recent years, performance has been measured against Earnings Per Share (EPS), Return on Capital Employed (ROCE) and Revenue. The Committee believes these measures appropriately reflect the key drivers of shareholder value as EPS drives and rewards bottom-line performance, while Revenue and ROCE ensure top-line growth and the efficient use of capital in line with business strategy.

PSP awards made in 2013/14 (audited)

In June 2013, executive directors were awarded nil-cost options/conditional shares of 250% of salary. These awards vest subject to performance measured against EPS, ROCE and Revenue, each measured independently. Performance is measured over the three-year period to the end of the 2015/16 financial year. To the extent to which performance is met, awards will vest on 24 June 2016. Further details of PSP awards made in 2013/14 are detailed below.

	Basis of award	Face value of award[2] £000	End of performance period[3]
Marc Bolland	250% of salary	2,437	02/04/2016
Patrick Bousquet-Chavanne[1]	–	946	02/04/2016
John Dixon	250% of salary	1,500	02/04/2016
Steve Rowe	250% of salary	1,312	02/04/2016
Alan Stewart	250% of salary	1,447	02/04/2016
Laura Wade-Gery	250% of salary	1,380	02/04/2016

1. Patrick Bousquet-Chavanne received an award under the PSP prior to his appointment as an executive director. All of Patrick Bousquet-Chavanne's outstanding share awards are detailed in the table set out on page 68.
2. The face value of awards is calculated as the number of nil-cost options/conditional shares awarded multiplied by the average mid-market share price on the five dealing days prior to the date of grant. For this year, the share price was calculated as £4.37, being the average share price between 17 June 2013 and 21 June 2013. Further details of these awards are shown in the table on pages 68 to 69.
3. For threshold performance, 20% of the face value award will vest.

PSP awards vesting in 2013/14 (audited)

For directors in receipt of PSP awards in 2011, awards will vest on 25 July 2014, based on three-year performance over the period to 29 March 2014. Performance has been assessed and it has been determined that 7.6% of the award will vest. Details of performance against the specific targets set are set out in the tables below.

	Performance target					
			Revenue (£ 2013/14)			
	Cumulative EPS[2]	ROCE (%)	UK[3]	Multi-channel[4]	International[5]	
	50% of award	20% of award	10% of award	10% of award	10% of award	**Total vesting[6]**
Threshold performance[1]	110p	17.00%	£9,200m	£700m	£1,100m	
Maximum performance[1]	130p	18.50%	£9,900m	£1,000m	£1,400m	
Actual performance achieved	100p	16.0%	£8,377m	£800m	£1,132m	
Percentage of maximum achieved	0%	0%	0%	4.7%	2.9%	**7.6%**

1. 20% of an award vests for threshold performance with full vesting for achieving or exceeding maximum performance. Vesting is a straight line between these two points.
2. Actual performance achieved has been restated to Pre-IAS 19 values, to allow for a like-for-like measurement against targets.
3. Excluding Multi-channel.
4. Net of VAT/gross of returns.
5. Excluding Multi-channel/including Republic of Ireland.
6. Details of the number of shares awarded to each director in 2011 are shown in the table on pages 68 to 69. As described above 7.6% of these awards will vest. The estimated value of these awards, including the dividend equivalents, are set out in the single figure table on page 62.

PSP awards to be made in 2014/15

Awards of nil-cost options/conditional shares will be made following the announcement of the Company's results.

The maximum award opportunity is 300% of salary, however the Committee have typically referenced awards to 250% of salary. It is intended that all current executive directors will receive awards of 250% of salary in 2014/15.

The Committee reviews the performance measures annually to ensure that they remain challenging in the context of M&S's business strategy. For 2014/15 awards, there will be no changes to the measures and weightings of awards. The Committee believes that the balance of EPS, ROCE and Revenue continues to appropriately reflect the key drivers of shareholder value for M&S and remain the most appropriate long-term drivers of the Company's strategy.

Following the review however, the Committee determined that a recalibration of some of the performance targets in line with the Company's operating plan, and internal and external forecasts would be appropriate. The targets for the 2014/15 award are as follows:

		Performance target				
				Revenue (£ 2016/17)		
	% vesting	Annualised EPS growth (%)[1]	ROCE (%)	UK[2]	Multi-channel[3]	International[4]
	% of award	50% of award	20% of award	10% of award	10% of award	10% of award
Threshold performance	20%	5.0%	15.0%	£8,900m	£1,100m	£1,400m
Maximum performance	100%	12.0%	16.5%	£9,600m	£1,300m	£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.

Performance conditions for outstanding PSP awards (audited)

The details of outstanding PSP awards are set out in the table on pages 68 to 69. These awards vest subject to the extent that the following three-year performance conditions are met.

		Performance target				
				Revenue (£)[6]		
	% vesting[1]	EPS[2]	ROCE (%)	UK[3]	Multi-channel[4]	International[5]
	% of award	50% of award	20% of award	10% of award	10% of award	10% of award
2012/13 Award						
Threshold performance	20%	110p	15.0%	£8,900m	£800m	£1,300m
Maximum performance	100%	130p	18.5%	£9,600m	£1,000m	£1,700m
2013/14 Award						
Threshold performance	20%	5.0%	15.0%	£8,900m	£900m	£1,400m
Maximum performance	100%	12.0%	18.5%	£9,600m	£1,100m	£1,800m

1. Vesting is a straight line between 'threshold' and 'maximum' performance.
2. For 2012/13, EPS performance was measured against cumulative EPS targets at the end of the three-year performance period. For 2013/14, EPS performance targets were measured against annualised EPS growth over the three-year period.
3. Excluding Multi-channel.
4. Net of VAT/gross of returns.
5. Excluding Multi-channel/including Republic of Ireland.
6. Measured at the end of 2014/15 for 2012/13 award and at the end of 2015/16 for 2013/14 award.

The above targets 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.

ShareSave (Save As You Earn) (audited)

As outlined in the remuneration policy on pages 54 to 55, executive directors may participate in ShareSave, the Company's Save As You Earn scheme, on the same basis as all other eligible employees. Marc Bolland, Patrick Bousquet-Chavanne, John Dixon and Steve Rowe all joined the 2013 scheme, saving the maximum of £250 per month. In line with HMRC regulations, options were offered at a 20% discount. The discounted face value for these individuals was £2,235 and is reflected in the single figure table on page 62. Further details of the Scheme is set out in Note 13 to the financial statements on pages 107 to 108.

Report on Directors' remuneration continued

What are the details of the executive directors' interests in the Company's share schemes? (audited)

	Date of grant	Maximum receivable at 31 March 2013 (or date of appointment)	Awarded during the year	Exercised during the year	Lapsed during the year	**Maximum receivable at 29 March 2014 (or date of retirement)**	Option price (p)	Share price on date of grant (p)	Share price on date of exercise (p)	Exercise period/ vesting date
Marc Bolland										
Performance Share Plan[1]	09/06/10	365,310	–	365,310	–	**–**	0.0	341.2	475.03	–
	09/06/10	1,143,024	–	–	1,143,024	**–**	0.0	341.2	–	–
	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
	24/06/13	–	557,780	–	–	**557,780**	0.0	437.0	–	24/06/16 – 23/06/23
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
	24/06/13	–	94,822	–	–	**94,822**	0.0	437.0	–	24/06/16 – 23/06/23
Restricted Share Plan[2]	09/06/10	146,541	–	146,541	–	**–**	0.0	341.2	475.03	–
	09/06/10	146,542	–	146,542	–	**–**	0.0	341.2	475.03	–
SAYE	25/11/10	2,821	–	–	–	**2,821**	319.0	397.6	–	01/01/14 – 30/06/14
	21/11/13	–	2,222	–	–	**2,222**	405.0	505.6	–	01/01/17 – 30/06/17
Total		**3,505,438**	**654,824**	**658,393**	**1,143,024**	**2,358,845**				
Patrick Bousquet-Chavanne[3]										
Performance Share Plan[1]	05/12/12	230,735	–	–	–	**230,735**	–	389.4	–	05/12/15
	24/06/13	216,421	–	–	–	**216,421**	–	437.0	–	24/06/16
Deferred Share Bonus Plan	24/06/13	26,195	–	–	–	**26,195**	–	437.0	–	24/06/16
Restricted Share Plan	13/09/12	174,258	–	–	–	**174,258**	–	368.0	–	13/09/15
SAYE	21/11/13	–	2,222	–	–	**2,222**	405.0	505.6	–	01/01/17 – 30/06/17
Total		**647,609**	**2,222**	**–**	**–**	**649,831**				
John Dixon										
Performance Share Plan[1]										
	24/11/09	9,149	–	9,149	–	**–**	0.0	382.0	442.2	–
	09/06/10	300,410	–	–	300,410	**–**	0.0	341.2	–	–
	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
	24/06/13	–	343,249	–	–	**343,249**	0.0	437.0	–	24/06/16 – 23/06/23
Deferred Share Bonus Plan	09/06/10	223,054	–	223,054	–	**–**	0.0	341.2	442.2	–
	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
	24/06/13	–	62,471	–	–	**62,471**	0.0	437.0	–	24/06/16 – 23/06/23
Executive Share Option Scheme	20/07/04	25,935	–	25,935	–	**–**	347.0	347.0	442.2	–
SAYE	21/11/08	8,251	–	8,251	–	**–**	203.0	252.6	493.2	–
	21/11/13	–	2,222	–	–	**2,222**	405.0	505.6	–	01/01/17 – 30/06/17
Total		**1,539,848**	**407,942**	**266,389**	**300,410**	**1,380,991**				
Steve Rowe										
Performance Share Plan[1]	09/06/10	153,868	–	–	153,868	**–**	0.0	341.2	–	–
	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
	24/06/13	–	300,343	–	–	**300,343**	0.0	437.0	–	24/06/16 – 23/06/23
Deferred Share Bonus Plan	09/06/10	76,934	–	76,934	–	**–**	0.0	341.2	442.2	–
	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
	24/06/13	–	50,457	–	–	**50,457**	0.0	437.0	–	24/06/16 – 23/06/23
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	460.9	–
	21/11/13	–	2,222	–	–	**2,222**	405.0	505.6	–	01/01/17 – 30/06/17
Total		**783,504**	**353,022**	**85,185**	**153,868**	**897,473**				

	Date of grant	Maximum receivable at 31 March 2013 (or date of appointment)	Awarded during the year	Exercised during the year	Lapsed during the year	**Maximum receivable at 29 March 2014 (or date of retirement)**	Option price (p)	Share price on date of grant (p)	Share price on date of exercise (p)	Exercise period/ vesting date
Steven Sharp[4]										
Performance Share Plan[1]	09/06/09	138,040	–	–	–	**138,040**	0.0	286.1	–	09/06/12 – 28/02/15
	09/06/10	375,146	–	–	375,146	**–**	0.0	341.2	–	–
	25/07/11	461,657	–	–	–	**461,657**	0.0	354.7	–	20/05/14 – 19/05/15
	18/06/12	519,071	–	–	–	**519,071**	0.0	325.1	–	May 2015 – May 2016
Deferred Share Bonus Plan	09/06/10	267,291	–	267,291	–	**–**	0.0	341.2	443.36	–
	09/06/11	113,724	–	–	–	**113,724**	0.0	378.4	–	01/03/14 – 28/02/15
	18/06/12	62,288	–	–	–	**62,288**	0.0	325.1	–	01/03/14 – 28/02/15
	24/06/13	–	60,701	–	–	**60,701**	0.0	437.0	–	01/03/14 – 28/02/15
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	–	–
Total		**2,347,308**	**60,701**	**267,291**	**378,634**	**1,762,084**				
Alan Stewart										
Performance Share Plan[1]	24/11/10	144,432	–	–	144,432	**–**	0.0	380.8	–	–
	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
	24/06/13	–	331,235	–	–	**331,235**	0.0	437.0	–	24/06/16 – 23/06/23
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
	24/06/13	–	56,310	–	–	**56,310**	0.0	437.0	–	24/06/16 – 23/06/23
Restricted Share Plan[2]	24/11/10	39,390	–	39,390	–	**–**	0.0	380.8	479.0	–
	24/11/10	39,391	–	39,391	–	**–**	0.0	380.8	479.0	–
SAYE	24/11/11	3,488		–	–	**3,488**	258.0	322.4		01/01/15 – 30/06/15
Total		**1,143,354**	**387,545**	**78,781**	**144,432**	**1,307,686**				
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
	24/06/13	–	315,789	–	–	**315,789**	0.0	437.0	–	24/06/16 – 23/06/23
Deferred Share Bonus Plan	18/06/12	37,442	–	–	–	**37,442**	0.0	325.1	–	18/06/15 – 17/06/22
	24/06/13	–	53,684	–	–	**53,684**	0.0	437.0	–	24/06/16 – 23/06/23
Restricted Share Plan[2]	25/07/11	119,751	–	119,751	–	**–**	0.0	354.7	445.2	–
	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		**1,221,157**	**369,473**	**119,751**	**–**	**1,470,879**				

1. The number of options/conditional shares shown under the Performance Share Plan is the maximum (100%) number that could be receivable by the executive director if the performance conditions are fully met. The 2010 award did not meet the threshold EPS target and so all awards lapsed. 7.6% of the 2011 award will vest in July 2014 as set out on page 66.
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. Patrick Bousquet-Chavanne's awards are structured as conditional shares. His RSP award was made prior to his appointment to executive director.
4. Steven Sharp retired from the Board on 9 July 2013. Details of his leaving arrangements are set out on page 72. The vesting of his PSP awarded in 2012 will be confirmed in May 2015. The exercise period will be 12 months from the date when the 2015 Annual Report is approved by the Board.

The market price of the shares at the end of the financial year was 453.7p; the highest and lowest share price during the financial year were 513.5p and 375.3p respectively.

The aggregate gains of directors arising from the exercise of options granted under the PSP, DSBP, ESOS, RSP and SAYE in the year totalled £6,660,036.

Report on Directors' remuneration continued

What are the details of the directors' shareholdings in the Company? (audited)

Directors' shareholdings

The table below sets out the total number of shares held at 29 March 2014 or date of retirement by each executive director serving on the Board during the year.

		Unvested			
		With performance conditions	Without performance conditions		
	Shares owned outright[2]	Performance Share Plan	Deferred Share Bonus Plan	Restricted Share Plan	Vested but unexercised[3]
Marc Bolland	495,290	1,994,749	359,053	–	–
Patrick Bousquet-Chavanne	2,000	447,156	26,195	174,258	–
John Dixon	276,399	1,156,026	222,743	–	–
Steve Rowe	234,823	738,498	125,054	–	–
Steven Sharp[1]	540,781	980,728	236,713	–	138,040
Alan Stewart	51,622	1,154,905	149,293	–	–
Laura Wade-Gery	118,324	1,175,851	91,126	77,677	126,225

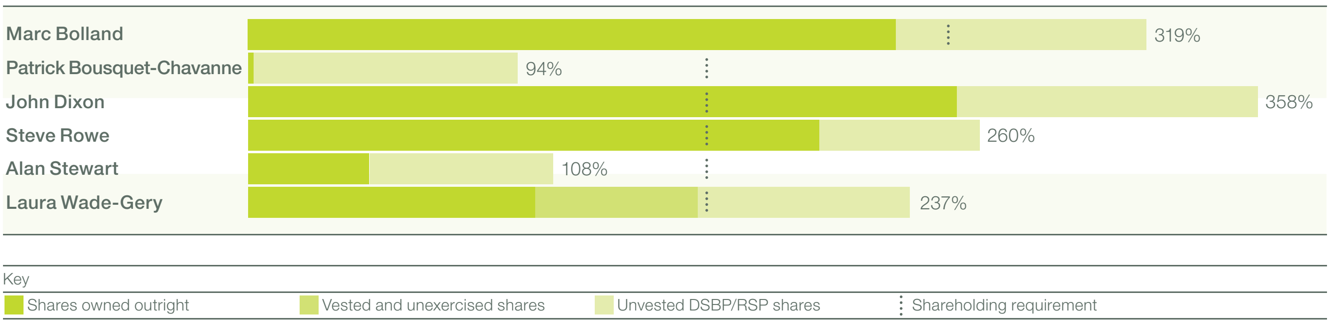
1. Shareholding at 9 July 2013, the date Steven Sharp retired from the Board.
2. Includes shares held by connected persons.
3. Comprises all unexercised awards under these schemes.

There have been no changes in the current directors' interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and 22 May 2014. No director had an interest in any of the Company's subsidiaries at the statutory end of the year.

Shareholding requirements

All executive directors are required to hold shares equivalent in value to a minimum percentage of their salary within a five-year period from their date of appointment. During the year, the Committee reviewed the target level of shareholding for the directors and decided to increase the target to 250% of salary for the CEO and 150% of salary for other executive directors.

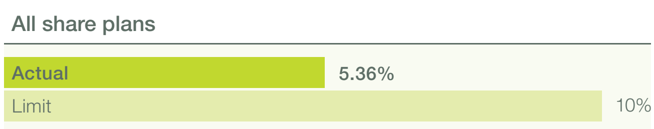
The chart below shows the extent to which each director has met their increased target shareholding as at 29 March 2014.

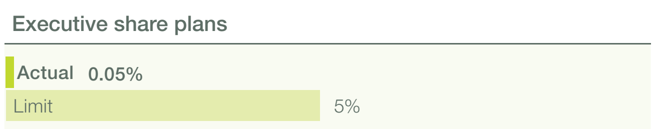


For the purposes of the requirements, the net number of unvested shares awards not subject to performance conditions is included. The Committee is aware that during the year, best practice guidelines concerning shares to be counted towards requirements were amended. Following the recent review of the Company's shareholding requirements, the Committee is satisfied that the requirements remain sufficiently robust, but is committed to keeping this issue under review.

What is the current dilution of share capital by employee share plans?

Awards granted under the Company's Save As You Earn scheme and the Executive Share Option scheme are met by the issue of new shares when the options are exercised. All other share plans are met by market purchase shares. The Company monitors the number of shares issued under these schemes and their impact on dilution limits. The Company's usage of shares compared to the dilution limits set by the Association of British Insurers (ABI) in respect of all share plans (10% in any rolling 10-year period) and executive share plans (5% in any rolling 10-year period) as at 29 March 2014 was as follows:



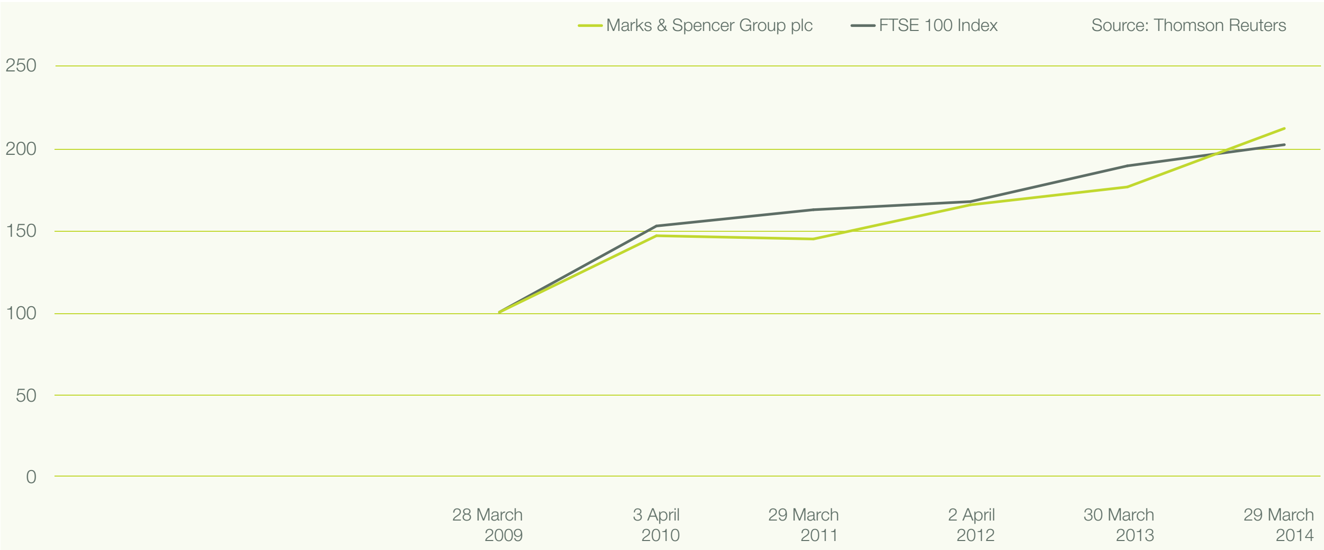


What are the remuneration comparisons for the Company?

Performance graph and table

The graph below illustrates the Company's performance against the FTSE 100 over the past five years. The calculation of TSR is in accordance with the relevant remuneration regulations. As required by the new regulations, the table below the TSR chart sets out the remuneration data for directors undertaking the role of CEO during each of the last five financial years.

Historical TSR performance



Historical CEO remuneration

	CEO	2009/10	2010/11	2011/12	2012/13	2013/14
CEO single figure of remuneration (£000)	Marc Bolland	–	5,998	3,324	2,142	1,587
	Stuart Rose	4,294	269	–	–	–
Annual bonus payment (% of maximum)	Marc Bolland	–	45.80%	34.00%	42.50%	0.00%
	Stuart Rose	97.00%	57.40%	–	–	–
PSP vesting (% of maximum)	Marc Bolland	–	–	31.96%	0.00%	7.60%
	Stuart Rose	0.00%	0.00%	–	–	–

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

Percentage change in CEO's remuneration

The table below sets out the change in the CEO's remuneration (i.e. salary, taxable benefits and annual bonus) compared with the change in our UK-based employees. This group has been chosen as the majority of our workforce is UK-based.

	% change FY 2013 – FY 2014		
	Base salary	Benefits	Annual Bonus
CEO	0.0%	0.1%	-100%
UK employees (average per FTE)	2.6%	0.1%	-100%

Report on Directors' remuneration continued

Relative importance of spend on pay

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

	2012/13 £m	**2013/14 £m**	% change
Total employee pay	1,324.2	**1,410.9**	6.5
Dividends	271.3	**273.6**	0.8
Underlying Group Profit Before Tax[1]	648.1	**622.9**	-4.2

1. Restated Underlying PBT for 2012/13. The restatement relates to the adoption of the revised IAS19 'Employee Benefits'. See Note 1 of the financial statements for further information.

The figures above are as set out on page 102 in the notes to the accounts. Total employee pay is the total pay for all Group employees. Underlying Group Profit Before Tax has been used as a comparison as this is the key financial metric which the Board consider when assessing Company performance.

What are the details of directors' service contracts and Board roles?

Service agreements

As detailed on page 58 of the remuneration policy, all executive directors have rolling contracts which may be terminated by the Company giving 12 months' notice or the director giving six months' notice.

	Date of appointment	Notice period/unexpired term
Marc Bolland	01/05/2010	12 months/6 months
Patrick Bousquet-Chavanne	10/07/2013	12 months/6 months
John Dixon	09/09/2009	12 months/6 months
Steve Rowe	01/10/2012	12 months/6 months
Alan Stewart	28/10/2010	12 months/6 months
Laura Wade-Gery	04/07/2011	12 months/6 months

Changes to the Board during 2013/14

Directors appointed to the Board

Patrick Bousquet-Chavanne

As reported last year, Patrick Bousquet-Chavanne joined the Board as Executive Director, Marketing & Business Development on 10 July 2013 on a salary of £525,000. No other awards were made to Patrick upon this appointment.

Directors retiring from the Board

Steven Sharp

Steven Sharp, Executive Director, Marketing, retired from the Board on 9 July 2013 and continued to work in the business as Creative Director until 28 February 2014 when he left the Company. Steven was paid in line with his contractual arrangements.

As disclosed in last year's report, Steven was entitled to a prorated payment under the Annual Bonus Scheme on the same basis as all other executive directors. As no bonus was payable under the Scheme, Steven did not receive a payment for 2013/14. Steven's unvested DSBP awards were released in full on 1 March 2014.

Steven did not receive an award in 2013 under the PSP. As detailed in the table on page 69, Steven has two outstanding awards under the Plan which were awarded in July 2011 and June 2012. In accordance with the rules of the Plan, these awards will vest in May 2014 and May 2015 respectively. The number of shares he will receive at this time will be determined by achievement against the measures and targets set at the beginning of the respective performance period. The Committee has used its discretion and after consideration will not prorate the outstanding awards for time as allowed under the rules of the Plan.

Payments to past directors (audited)

There were no payments made to past directors during the year.

Payments for the loss of office (audited)

There were no payments for loss of office made to directors during the year.

External appointments

The Company recognises that executive directors may be invited to become non-executive directors of other companies and that these appointments can broaden their knowledge and experience to the benefit of the Company. The policy is for the individual director to retain any fee. The table below sets out the details for these fees earned up to 29 March 2014 or until the date of leaving the Board.

Director	Company	Fee £000
Marc Bolland[1]	Manpower Inc.	**115**
Patrick Bousquet-Chavanne[2]	Brown-Forman	**148**
Steven Sharp[3]	Adnams plc	**8**

1 arc Bolland's fee is paid in cash and stock units in US dollars. For the purposes of this table the values were converted to sterling using the £:$ spot rate as at 28 March 2014 for stock units and the average rolling £:$ rate for the period April 2013 to March 2014 for cash payments.
2. Patrick Bousquet-Chavanne's fee is paid in cash and stock units in US dollars. For the purposes of this table the values were converted to sterling using the average rolling £:$ rate for the period July 2013 to March 2014.
3. Until 9 July 2013, his date of retirement from the Board.

Non-executive directors

As detailed in the remuneration policy on page 60, non-executive directors receive fees reflective of the time commitment, demands and responsibilities of the role. The table below details the fees paid to the non-executive directors for 2013/14 and 2012/13.

What payments did the non-executive directors receive during the year?
The non-executive directors' 'single figure' of remuneration for 2013/14 and 2012/13 (audited)

	Year	Basic fees £000	Additional fees £000	Benefits £000	Total £000
Robert Swannell	2013/14	70	380	21	**471**
	2012/13	70	380	20	**470**
Vindi Banga	2013/14	70	–	–	**70**
	2012/13	70	–	–	**70**
Alison Brittain[1]	2013/14	18	–	–	**18**
	2012/13	–	–	–	**–**
Miranda Curtis	2013/14	70	–	–	**70**
	2012/13	70	–	–	**70**
Jeremy Darroch[2]	2013/14	17	4	–	**21**
	2012/13	70	15	–	**85**
Martha Lane Fox	2013/14	70	–	–	**70**
	2012/13	70	–	–	**70**
Andy Halford[3]	2013/14	70	11	–	**81**
	2012/13	18	–	–	**18**
Steven Holliday	2013/14	70	15	–	**85**
	2012/13	70	15	–	**85**
Jan du Plessis	2013/14	70	30	–	**100**
	2012/13	70	30	–	**100**

1. The amounts shown reflect that Alison Brittain joined the Board on 1 January 2014.
2. The amounts shown reflect that Jeremy Darroch retired from the Board on 19 June 2013.
3. The amounts shown reflect that Andy Halford was appointed as Chairman of the Audit Committee on 1 July 2013.

Report on Directors' remuneration continued

What are the shareholdings for the non-executive directors? (audited)

The non-executive directors are not permitted to participate in any of the Company's incentive arrangements. The non-executive directors are required to build and maintain a shareholding of at least 2,000 shares in the Company within two months of their appointment to the Board. The table below details the shareholding of the non-executive directors who served on the Board during the year as at 29 March 2014 (or upon their date of retiring from the Board).

	Number of shares held[2]
Robert Swannell	100,000
Vindi Banga	2,000
Alison Brittain	2,500
Miranda Curtis	5,500
Jeremy Darroch[1]	2,000
Martha Lane Fox	20,100
Andy Halford	3,000
Steven Holliday	2,500
Jan du Plessis	20,000

1. Shareholding as at 19 June 2013, the date Jeremy Darroch retired from the Board.
2. Includes shares held by connected persons.

There have been no changes in the current non-executive directors' interests in shares in the Company and its subsidiaries between the end of the financial year and 22 May 2014.

What are the details of the non-executive directors' agreements for service and Board changes?

Agreements for service

Non-executive directors have an agreement for service for an initial three-year term which can be terminated by either party giving three months' notice (six months' for the Chairman). The table below sets out these terms for all current members of the Board.

	Date of appointment	Notice period/unexpired term
Robert Swannell	23/08/2010	6 months/6 months
Vindi Banga	01/09/2011	3 months/3 months
Alison Brittain	01/01/2014	3 months/3 months
Miranda Curtis	01/02/2012	3 months/3 months
Martha Lane Fox	01/06/2007	3 months/3 months
Andy Halford	01/01/2013	3 months/3 months
Steven Holliday	15/07/2004	3 months/3 months
Jan du Plessis	01/11/2008	3 months/3 months

Changes to the Board during 2013/14

Directors appointed to the Board

Alison Brittain

Alison Brittain joined the Board on 1 January 2014 as a non-executive director. Alison is a member of the Nominations Committee, and was appointed a member of the Audit Committee from 11 March 2014. In accordance with the non-executive director fees policy, Alison receives a fee of £70,000 p.a. Her prorated fee for the 2013/14 financial year is detailed in the table on page 73.

Directors retiring from the Board

Jeremy Darroch

Jeremy Darroch, Chairman of the Audit Committee, retired from the Board on 19 June 2013. There were no payments for loss of office payable to Jeremy.

Directors changing roles within the Board

Andy Halford

Andy Halford became Chairman of the Audit Committee on 20 June 2013, upon Jeremy Darroch's retirement from the Board. From this date, Andy received additional fees in accordance with the responsibility of this role, as described in the remuneration policy on page 60.

Changes to the Board in 2014/15

Directors retiring from the Board

Steven Holliday

Steven Holliday has served as a non-executive director since July 2004 and Chairman of the Remuneration Committee since September 2009. He will step down and retire from the Board following the AGM on 8 July 2014. There will be no payments for loss of office payable to Steven.

Directors changing roles within the Board

Vindi Banga

Vindi Banga will become the Chairman of the Remuneration Committee on 9 July 2014, upon Steven Holliday's retirement from the Board. Vindi will be entitled to receive additional fees in accordance with the responsibility of this role, as described in the remuneration policy on page 60.

Remuneration Committee

Who is on our Committee?

The following independent non-executive directors were members of the Committee during 2013/14.

Member	Member since	Maximum possible meetings	Number of meetings attended	% of meetings attended
Steven Holliday (Chairman)	15 July 2004	6	6	100%
Vindi Banga	1 September 2011	6	6	100%
Miranda Curtis	1 February 2012	6	6	100%
Jan du Plessis	8 September 2009	6	6	100%

Steven Holliday will be retiring from the Board on 8 July 2014. At this time, Vindi Banga will succeed Steven as the Chairman of the Remuneration Committee. Andy Halford joined the Remuneration Committee on 1 May 2014.

Report on Directors' remuneration continued

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.

Key responsibilities of the Remuneration Committee

- 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.

The full terms of reference for the Committee can be found on the Company's website at **marksandspencer.com/thecompany**

What has the Committee done during the year?

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

Remuneration Committee agenda for 2013/14

Regular items

- Approval of the Directors' Remuneration Report for 2012/13 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 2013/14;
- Review of the design and targets for the 2014/15 Annual Bonus Scheme including the approval of individual objectives for directors;
- Review and approval of all awards made under the PSP taking into account the total value of all awards made under this plan;
- Half-year and year end review of all share plan performance against targets;
- Approval of the vesting level of the 2010/11 PSP awards;
- Consideration of the performance measures and targets to be applied to the 2014/15 PSP 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;
- Consideration of remuneration arrangements for the wider workforce;
- Assessment of the external environment surrounding the Company's current remuneration arrangements;
- Consideration of external market developments and best practice in remuneration;
- Review of Committee performance in 2013/14;and
- Review of Committee terms of reference.

Other items

- Consideration of, and response to, the FRC's consultation on directors' remuneration;
- Discussion of the application of the new reporting regulations to ensure transparent and clear disclosure to shareholders;
- 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 senior managers; and
- Induction of new Remuneration Committee Chairman;

What is the action plan for 2014/15?

Remuneration Committee action plan 2014/15

- Ensuring the smooth transition to new Chair of Committee;
- Review and retender of independent external advisors to the Committee due to current advisors (Deloitte) being appointed as the Company's auditors;
- Review executive remuneration structures and targets to ensure balance with Company-wide offering;
- Review the Performance Share Plan and Executive Share Option Scheme design, structure and rules for shareholder approval at 2015 AGM, as the current plans are reaching the end of their 10-year life; and
- Review the effectiveness and transparency of disclosures and reporting.

Who advises the Committee?

In carrying out its responsibilities, the Committee is independently advised by external advisors. The Committee was advised by Deloitte LLP during the year. Deloitte are 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 remunerationconsultantsgroup.com.

Deloitte were appointed 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. Deloitte's fees are charged on an hourly basis. During the year, Deloitte charged £76,000 for Remuneration Committee matters. In addition to providing advice on executive remuneration, Deloitte has provided tax, consultancy and internal audit advice to the Group in the financial year.

With effect from 1 April 2014, Deloitte were appointed as external auditor to Marks and Spencer Group plc. As a result, the Remuneration Committee will appoint a new advisor to replace Deloitte during 2014. Until a new advisor is appointed, the Remuneration and Audit Committees have agreed that Deloitte will continue to provide advice to the Committee. 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.

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

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

How does the Committee engage with stakeholders?

Employee consultation

The Committee is committed to ensuring that executive pay remains competitive, appropriate and fair in the context of the external market, company performance and the pay arrangements of the wider workforce. In collaboration with the Head of Reward & Global Mobility, the Committee gives employees, through employee representatives, the opportunity to raise questions or concerns regarding the remuneration of the executive directors. During the year, the Head of Reward & Global Mobility met with employee representatives to discuss the directors' pay arrangements; no concerns were raised. Upon reporting back on the discussions and outcome of this meeting, the Committee is satisfied that the pay arrangements for 2013/14 and 2014/15 remain appropriate for M&S.

Shareholder consultation

The Committee is committed to a continuous, open and transparent dialogue with shareholders on the issue of executive remuneration. The Committee held a Governance Event in June 2013 to review and debate remuneration with shareholders and representative bodies. In addition, both Steven Holliday and Vindi Banga met with a number of investors as part of the handover process and ahead of consulting the Company's largest shareholders on proposals for the 2014/15 remuneration arrangements for executive directors.

Shareholder support for the 2012/13 Directors' remuneration report

At the Annual General Meeting on 9 July 2013, 91.94% of shareholders voted in favour of approving the Directors' remuneration report for 2012/13. The Committee believe this illustrates the strong level of shareholder support for the senior remuneration framework. The table below shows full details of the voting outcomes for the 2012/13 Directors' remuneration report.

votes for	% votes for	votes against	% votes against	votes withheld
877,888,013	91.94%	76,968,514	8.06%	6,029,313

Approved by the Board
Steven Holliday, Chairman of the Remuneration Committee
London
22 May 2014

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 next valuation is due as at 31 March 2015. Funding progress is closely monitored and the investment derisking journey has continued since the last valuation.

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

During the year the Board has been recognised through various external awards including those for trustee development, risk management, portfolio structure and use of alternative investments. A website for members was launched in September 2013.

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

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

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

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

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

Other disclosures

Directors' Report

Marks and Spencer Group plc (the 'Company') is the holding company of the Marks and Spencer Group of companies (the 'Group'). With our rich heritage, M&S occupies a unique place in Britain and is regularly voted as one of the UK's most trusted brands. Since we opened our first penny bazaar in Leeds 130 years ago, quality and innovation have remained the driving force behind our business and they run through everything we do. They are what make the M&S difference across the 54 territories in which we operate.

For information on our social, environmental and ethical responsibilities, please refer to our Plan A Report, available to view at marksandspencer.com/plana2014.

The Directors' Report for the year ended 29 March 2014 comprises pages 36 to 77 and 79 to 83 of this report (together with the sections of the Annual Report incorporated by reference). As permitted by legislation, some of the matters normally included in the Directors' Report have instead been included in the Strategic Report (pages 1 to 35) as the Board considers them to be of strategic importance. Specifically, these are:

- Future business developments (throughout the Strategic Report and indicated by);
- Research and development (page 22), and
- Risk management (pages 15 to 17).

Both the Strategic Report and the Directors' Report have been drawn up and presented in accordance with, and in reliance upon applicable English company law, and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law. 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 £506.0m (last year £444.8m). The directors have declared dividends as follows:

Ordinary shares	£m
Paid interim dividend of 6.2p per share (last year 6.2p per share)	100.0
Proposed final dividend of 10.8p per share (last year 10.8p per share)	176.0
Total ordinary dividend, 17.0p per share (last year 17.0p per share)	276.0

The final ordinary dividend will be paid on 11 July 2014 to shareholders whose names are on the Register of Members at the close of business on 30 May 2014.

Share capital

The Company's issued ordinary share capital, as at 29 March 2014, 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.

During the period, 18,359,782 ordinary shares in the Company were issued as follows:

- 1,332,855 shares under the terms of the 2002 Executive Share Option Scheme at prices between 270p and 352p.
- 16,921,571 shares under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 203p and 319p.
- 105,356 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 its Articles of Association 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 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

At the 2013 AGM, the Company was authorised by shareholders to purchase in the market up to 10% of its issued share capital, as permitted under the Company's Articles. No shares have been bought back under this authority during the year ended 29 March 2014. This standard authority is renewable annually and the directors will seek to renew it once again at the 2014 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 2013 AGM to allot relevant securities up to a nominal amount of £134,566,483. That authority will apply until the conclusion of the 2014 AGM. At this year's AGM shareholders will be asked to grant the directors authority to allot relevant securities (i) up to a nominal amount of £136,089,559 and (ii) comprising equity securities up to a nominal amount of £272,179,119 (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 2015 or, if earlier, on 28 September 2015.

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 £20,413,434. A further special resolution will be proposed to renew the directors' authority to repurchase the Company's ordinary shares in the market. This authority will be limited to a maximum of 163 million ordinary shares and sets the minimum and maximum prices which will be paid.

Other disclosures continued

Interests in voting rights

Information regarding interests in voting rights 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 29 March 2014, the following information has been received, in accordance with DTR5, from holders of notifiable interests in the Company's issued share capital. The information provided below was correct at the date of notification, where indicated this was not within the current financial year. It should be noted that these holdings are likely to have changed since notified to the Company. However, notification of any change is not required until the next applicable threshold is crossed.

	Ordinary shares	% of capital	Nature of holding
Capital Research & Mgt	49,634,565	3.07	Indirect Interest
The Wellcome Trust[1]	47,464,282	3.01	Direct Interest
William Adderley	48,541,640	3.00	Direct Interest

1. Date of notification was not in the 2013/14 financial year

Disclosures were also received from BlackRock Inc and Legal & General during the year notifying the Company that they no longer held a notifiable interest.

Deadlines for exercising voting rights

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

Significant agreements

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

- The £400m Medium Term Notes issued by the Company on 30 November 2009, the £300m Medium Term Notes issued by the Company on 6 December 2011 and the £400m Medium Term Notes ('MTN') issued by the Company on 12 December 2012 to various institutions 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 a 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 £100m Bilateral Facility dated 16 May 2013 between the Company and Lloyds Bank expiring May 2015 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; and
- The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

Board of directors

The membership of the Board and biographical details of the directors are given on pages 36 and 37 and are incorporated into this report by reference. Details of directors' beneficial and non-beneficial interests in the shares of the Company are shown on pages 70 and 74. Options granted under the Save As You Earn (SAYE) Share Option and Executive Share Option Schemes are shown on pages 68 to 69. Further information regarding employee share option schemes is given in note 13 to the financial statements.

Steve Sharp stepped down from the Board as Executive Director, Marketing following the AGM on 9 July 2013, however, continued to work in the business as Creative Director until

28 February 2014. Patrick Bousquet-Chavanne was appointed Executive Director, Marketing and Business Development following the AGM on 9 July 2013, having previously been Director of Strategy Implementation and Business Development. Andy Halford, who joined the Board on 1 January 2013, was appointed Chairman of the Audit Committee in June 2013, following the retirement of Jeremy Darroch. Andy Halford has also been appointed as a member of the Remuneration Committee with effect from 1 May 2014. Alison Brittain joined the Board as a non-executive director on 1 January 2014 and was appointed as a member of the Audit Committee with effect from 11 March 2014. Vindi Banga, who joined the Board on 1 September 2011 will replace Steven Holliday as Chairman of the Remuneration Committee, when Steven steps down from the Board following the AGM on 8 July 2014.

The appointment and replacement of directors is governed by the Company's Articles, the UK Corporate Governance Code 2012 (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 it considers appropriate 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 2012, all directors will stand for annual election at the 2014 AGM.

Directors' conflicts of interest

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

Directors' indemnities

The Company maintains directors' and officers' liability insurance, which gives appropriate cover for any legal action brought against its directors. The Company has also granted indemnities to each of its directors and the Group Secretary to the extent permitted by law. Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 29 March 2014 and remain in force, in relation to certain losses and liabilities which the directors (or Group Secretary) may incur to third parties in the course of acting as directors or Group Secretary or employees of the Company or of any associated company.

Employee involvement

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

The 19th meeting of the European Works Council ('EWC') (established in 1995) will take place in September 2014. 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 the Czech Republic, Greece, Bulgaria, France, Netherlands, Croatia, 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 BIG meetings. They visit stores and discuss with employees matters of current interest and concern to both employees and the business through meetings with local BIG representatives, specific listening groups and informal discussions. The business has continued to engage with employees and drive involvement through a scheme called The BIG Idea. On a quarterly basis the business poses a question to gather ideas and initiatives on a number of areas including how we can better serve our customers. Several thousand ideas are put forward each time and the winning employee receives an award and the chance to see how this is implemented by the Company.

Share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. In particular, around 24,000 employees currently participate in Sharesave, the Company's all employee Save As You Earn Scheme. Full details of all schemes are given on pages 105 to 107 in Note 13 to the Financial statements.

We have a well established interactive wellbeing website, called planahealth.com, a completely bespoke website and service designed exclusively for M&S employees. It gives any employee the opportunity to access a wealth of information, help and

Other disclosures continued

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. Via this service, employees can access our personal support teams for counselling, physiotherapy and our personal health coach.

The response has been excellent with 20,000 employees visiting the site, 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 Group 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 87 years old and joined the business at age 80. In April 2014, the Company once again featured in The Times Top 50 Places for Women to work and considers this highlights how equal opportunities are available for all.

Employees with disabilities

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

Groceries Supply Code of Practice

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

M&S submitted its report to the Audit Committee on 15 May 2014, covering the period from 1 April 2013 to 31 March 2014. 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. Aside from a dispute referred to below, which has now been resolved, only one supplier has alleged breaches of the Order/GSCOP during the reporting period. Communications between M&S and the supplier are ongoing and the complaint has not been escalated to the Code Compliance Officer.

M&S operates systems and controls to ensure compliance with the Order and GSCOP including the following:

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

A formal dispute between M&S and a grocery supplier arose under the Order/GSCOP during the previous financial year (2012/13). During the reporting period (2013/14), that dispute was resolved and no other formal disputes arose.

Total Global M&S Greenhouse Gas Emissions 2013/14

	2013/14 000 tonnes
Direct emissions (scope 1)	169
Indirect emissions from energy (scope 2)	339
Total statutory emissions (scope 1+2)	508
Transport, energy, waste and business travel (scope 3)	58
Total gross emissions	566
Carbon intensity measure (per 1,000 sq ft of salesfloor)	30
Deductions for 'green' tariffs and carbon offsets	566
Total net emissions	0

Calculated based on operational control in accordance with WRI/ WBCSD GHG Reporting Protocols (Revised edition) and 2014 DECC/ DEFRA Guidelines. This is the first year that GHG emissions have been calculated for all M&S activities globally.

Political donations
No political donations were made during the year ended 29 March 2014. 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 35 as well as the Group's principal risks and uncertainties as set out on pages 16 to 17. 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
Towards the end of 2013 the Company conducted a tender of the Statutory Auditor contract. More information on the tender process can be found on page 47. Following the tender process the Board took the decision to recommend Deloitte LLP as the Company's new Statutory Auditor. Resolutions to appoint Deloitte LLP and to authorise the Audit Committee to determine their remuneration will be proposed at the 2014 AGM.

Annual General Meeting
The AGM of Marks and Spencer Group plc will be held at Wembley Stadium, London on 8 July 2014 at 11am. The Notice of Meeting is given, together with explanatory notes, in a booklet which accompanies this report.

Directors' responsibilities
At Marks & Spencer, quality is not something that is merely added on to the end of a process, it is embedded throughout to ensure that each stage reflects the standards we and our stakeholders expect. This also applies to the Annual Report. The Board is of the view that the Annual Report should be representative of the year and provides the necessary information for shareholders to assess the Group's performance, business model and strategy. This is not achieved by merely reviewing the final document at the end of the preparation process. The Board ensured their requirements were clear from the outset and communicated to all who input and assist with the preparation of the document.

The Board advised that the narrative reports should reflect its considered view of the information investors and other users of the report needed, and should avoid being promotional in nature. The narrative reports in the front and the financial statements in the back of the report must be consistent and the teams work closely together to achieve this. For an independent opinion, the Board also requested that the Audit Committee review the report and provide feedback. This can be found on page 46.

The directors are also responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the 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 page 36 of the Annual Report, confirm that, to the best of their knowledge:

– The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
– The Strategic Report and the Directors' Report contained in this report 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; and
– This Annual Report, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Group's performance, business model and strategy.

Disclosure of information to 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 him/herself aware of any relevant audit information, and to establish that the Company's auditors are aware of that information.

The Director's Report was approved by a duly authorised committee of the Board of Directors on 22 May 2014 and signed on its behalf by
Amanda Mellor, Group Secretary
London 22 May 2014

Independent auditors' report

to the members of Marks and Spencer Group plc

Report on the financial statements

Our opinion

In our opinion:

- The financial statements defined below give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 29 March 2014 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 International Financial Reporting Standards (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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements and Parent Company financial statements (the 'financial statements'), which are prepared by Marks and Spencer Group plc, comprise:

- The Group and Parent Company statements of financial position as at 29 March 2014;
- The Group income statement and statement of comprehensive income for the 52 weeks then ended;
- The Group and Parent Company statements of changes in equity and statements of cash flows for the 52 weeks then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company, as applied in accordance with the provisions of the Companies Act 2006.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). 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 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 (the 'Annual Report') to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £31.0 million, representing 5% of profit before tax ('PBT') adjusted for non-GAAP performance measures ('adjusted Group PBT').

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.5 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at reporting units by us, as the group and UK engagement team, and by other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The Group financial statements are a consolidation of 117 reporting units, comprising the Group's operating businesses and centralised functions. We identified five of the Group's total reporting units that, in our view, required an audit of their complete financial information, due to their size and/or their risk characteristics, providing 80% coverage over adjusted Group PBT. The main UK trading company contributed 63% of this coverage. Specific audit procedures on certain specified balances and transactions were performed at a further five reporting units, which include the insurance companies located in the Channel Islands, as the nature of these balances/transactions differs significantly from the rest of the business. This, together with additional procedures performed at the Group level, including specific procedures on the majority of the remaining reporting units, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of audit focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 48.

Area of focus	How the scope of our audit addressed the area of focus
Inventory valuation and provisioning We focused on this area due to the significance of the balance, complex nature of the calculations and the level of judgement applied by the directors in determining the amount of provision needed to record the value of inventory at net realisable value where this is lower than cost.	We assessed the appropriateness of the methodology used to calculate the provisions held against inventory at year end. We agreed the underlying assumptions used in the calculation to supporting documentation and verified the models for mathematical accuracy. We also attended inventory counts at a sample of distribution centres and stores. We tested controls associated with inventory cost price and margin data.
Impairment of goodwill, brands and stores We focused on this area because the determination of whether or not impairment charges are necessary involved significant judgements by the directors about the future results of the business, especially given the difficult trading conditions in some markets. The directors booked impairment charges of £21.9 million for International stores. We needed to obtain evidence for the remaining amounts to determine their recoverability. (Refer also to note 15 to the financial statements).	We tested the directors' future cash flow forecasts, including comparing them to the latest Board approved plans and budgets, challenged the assumptions therein and looked at historical performance. We also challenged the directors' key assumptions for discount and long-term growth rates. In addition, we performed sensitivity analysis around the key drivers of the cash flow forecasts, including revenue and trading margin, to determine the extent of change in the key assumptions that either individually or collectively would be required for assets to be impaired and considered the likelihood of such change in those key assumptions arising. We also assessed the appropriateness of the disclosures included in the financial statements.
Presentation of 'underlying earnings' We focused on the classification of certain income and costs as non-GAAP measures (to derive 'underlying earnings') because under IFRSs the determination of these measures is judgemental, with IFRSs only formally requiring the separate presentation of material items.	We evaluated the presentation and completeness of material or unusual transactions for appropriate classification within the financial statements. We also tested the material balances disclosed as non-GAAP measures by agreeing such amounts to supporting documentation. We determined whether these items were in accordance with the Group's stated accounting policy.
Retirement benefits We focused on this area because the net asset position in the Group's retirement benefit plan, along with the valuation of the scheme's assets have shown volatility. Both the asset valuation and the pension obligation valuations are sensitive to changes in key assumptions, such as the discount rate and inflation estimates.	We tested the key assumptions underpinning the valuation of the scheme. We tested the data used in the valuation of the scheme, such as employee data, evaluated the key assumptions including discount rates applied and evaluated the expertise of the Group's actuaries. We obtained asset confirmations or performed other procedures to verify the completeness and accuracy of the scheme's plan assets. We also examined the disclosures in the financial statements.
Risk of management override of controls ISAs (UK & Ireland) require that we consider this.	We assessed the overall control environment of the Group, including the arrangements for staff to 'whistle-blow' inappropriate actions, and interviewed senior management and the Group's internal audit function. We tested manual journal entries and considered whether there was evidence of bias by the directors in the significant accounting estimates and judgements. We also incorporated an element of unpredictability into our testing plans.
Risk of fraud in revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. The Group continues to grow its business through a number of revenue streams. This increases the complexity and inherent risk in accounting for these revenues and in particular we focused on franchise and multi-channel transactions given that these are growing areas of the business with additional stores being opened internationally and the new website being launched.	We tested manual journals posted to revenue for indication of fraudulent misstatements. We applied data analysis techniques to test revenue transactions. We tested controls in the revenue and receivables cycle over the accuracy and timing of revenue recognised in the financial statements. We also tested transactions around the year end, in particular for UK and International franchise transactions, to check that revenue was accounted for appropriately and in the correct period.

Independent auditors' report continued

Going Concern
Under the Listing Rules we are required to review the directors' statement, as set out on page 83, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the Group's and Parent Company's financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Parent Company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Parent Company's ability to continue as a going concern.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matters on which we are required to report by exception
Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- 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 Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Corporate Governance Statement
Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Parent Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

On page 83 of the Annual Report, as required by the Code Provision C.1.1, the directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 48, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- The statement given by the directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- The section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report
Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- Materially inconsistent with the information in the audited financial statements; or
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Parent Company acquired in the course of performing our audit; or
- Is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 83, the directors are responsible for the preparation of the Group and Parent Company 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 Group and Parent Company financial statements in accordance with applicable law and ISAs (UK & 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.

Paul Cragg (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 May 2014

Financial statements

Consolidated income statement

	Notes	52 weeks ended 29 March 2014 £m	52 weeks ended 30 March 2013 (restated)[1] £m
Revenue	2, 3	**10,309.7**	10,026.8
Operating profit	2, 3	**694.5**	753.0
Finance income	6	**25.0**	12.4
Finance costs	6	**(139.1)**	(218.2)
Profit before tax	4	**580.4**	547.2
Income tax expense	7	**(74.4)**	(102.4)
Profit for the year		**506.0**	444.8
Attributable to:			
Owners of the parent		**524.8**	453.5
Non-controlling interests		**(18.8)**	(8.7)
		506.0	444.8
Basic earnings per share	8	**32.5p**	28.3p
Diluted earnings per share	8	**32.2p**	28.2p
Non-GAAP measures: Underlying profit before tax			
Profit before tax		**580.4**	547.2
Adjusted for:			
Profit on property disposal	5	**(82.2)**	–
UK and Ireland one-off pension credits	5	**(27.5)**	–
Interest income on tax repayment net of fees	5	**(3.3)**	–
Restructuring costs	5	**77.3**	9.3
International store review	5	**21.9**	–
IAS 39 Fair value movement of embedded derivative	5	**3.5**	(5.8)
Strategic programme costs	5	**2.0**	6.6
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	**50.8**	15.5
Underlying profit before tax	1	**622.9**	648.1
Underlying basic earnings per share	8	**32.2p**	31.9p
Underlying diluted earnings per share	8	**31.9p**	31.6p

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

Consolidated statement of comprehensive income

	Notes	52 weeks ended 29 March 2014 £m	52 weeks ended 30 March 2013 (restated)[1] £m
Profit for the year		**506.0**	444.8
Other comprehensive (expense)/income:			
Items that will not be classified to profit or loss			
Remeasurements of retirement benefit schemes	11	**(85.3)**	105.8
Tax credit/(charge) on retirement benefit schemes		**31.8**	(23.3)
		(53.5)	82.5
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences		**(22.3)**	7.9
Cash flow and net investment hedges			
– fair value movements in other comprehensive income		**(109.9)**	33.6
– reclassified and reported in net profit		**36.4**	(26.0)
– amount recognised in inventories		**18.7**	(13.6)
Tax credit/(charge) on cash flow hedges and net investment hedges		**12.2**	(0.4)
		(64.9)	1.5
Other comprehensive (expense)/income for the year, net of tax		**(118.4)**	84.0
Total comprehensive income for the year		**387.6**	528.8
Attributable to:			
Owners of the parent		**406.4**	537.5
Non-controlling interests		**(18.8)**	(8.7)
		387.6	528.8

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

Consolidated statement of financial position

	Notes	As at 29 March 2014 £m	As at 30 March 2013 (restated)[1] £m
Assets			
Non-current assets			
Intangible assets	14	**808.4**	695.0
Property, plant and equipment	15	**5,139.9**	5,033.7
Investment property		**15.7**	15.8
Investment in joint ventures		**12.7**	15.5
Other financial assets	16	**3.0**	3.0
Retirement benefit asset	11	**200.7**	249.1
Trade and other receivables	17	**313.5**	265.4
Derivative financial instruments	21	**40.6**	65.3
		6,534.5	6,342.8
Current assets			
Inventories		**845.5**	767.3
Other financial assets	16	**17.7**	16.9
Trade and other receivables	17	**309.5**	245.0
Derivative financial instruments	21	**13.7**	42.5
Current tax assets		**–**	3.1
Cash and cash equivalents	18	**182.1**	193.1
		1,368.5	1,267.9
Total assets		**7,903.0**	7,610.7
Liabilities			
Current liabilities			
Trade and other payables	19	**1,692.8**	1,503.8
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**71.9**	71.9
Borrowings and other financial liabilities	20	**448.7**	558.7
Derivative financial instruments	21	**51.5**	13.7
Provisions	22	**44.8**	19.2
Current tax liabilities		**39.6**	71.0
		2,349.3	2,238.3
Non-current liabilities			
Retirement benefit deficit	11	**11.7**	13.1
Trade and other payables	19	**334.0**	292.1
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**496.8**	550.7
Borrowings and other financial liabilities	20	**1,655.1**	1,727.3
Derivative financial instruments	21	**75.4**	13.1
Provisions	22	**31.4**	16.0
Deferred tax liabilities	23	**242.6**	240.6
		2,847.0	2,852.9
Total liabilities		**5,196.3**	5,091.2
Net assets		**2,706.7**	2,519.5
Equity			
Issued share capital	24	**408.1**	403.5
Share premium account		**355.5**	315.1
Capital redemption reserve		**2,202.6**	2,202.6
Hedging reserve		**(41.8)**	9.2
Other reserve		**(6,542.2)**	(6,542.2)
Retained earnings		**6,325.1**	6,150.3
Total shareholders' equity		**2,707.3**	2,538.5
Non-controlling interests in equity		**(0.6)**	(19.0)
Total equity		**2,706.7**	2,519.5

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

The financial statements were approved by the Board and authorised for issue on 22 May 2014. The financial statements also comprise of the notes on pages 92 to 122.

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[2] £m	Retained earnings[3] £m	Total £m	Non-controlling interest £m	Total £m
As at 1 April 2012 (restated)[1]	401.4	294.3	2,202.6	14.8	(6,114.3)	6,026.0	2,824.8	(11.4)	2,813.4
Profit/(loss) for the year (restated)[1]	–	–	–	–	–	453.5	453.5	(8.7)	444.8
Other comprehensive (expense)/income:									
Foreign currency translation	–	–	–	(1.5)	–	9.4	7.9	–	7.9
Remeasurements of retirement benefit schemes (restated)[1]	–	–	–	–	–	105.8	105.8	–	105.8
Tax charge on retirement benefit schemes (restated)[1]	–	–	–	–	–	(23.3)	(23.3)	–	(23.3)
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[4]	–	–	–	(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 (expense)/income (restated)[1]	–	–	–	(5.6)	–	89.6	84.0	–	84.0
Total comprehensive (expense)/income (restated)[1]	–	–	–	(5.6)	–	543.1	537.5	(8.7)	528.8
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
As at 30 March 2013 (restated)[1]	403.5	315.1	2,202.6	9.2	(6,542.2)	6,150.3	2,538.5	(19.0)	2,519.5
As at 31 March 2013 (restated)[1]	**403.5**	**315.1**	**2,202.6**	**9.2**	**(6,542.2)**	**6,150.3**	**2,538.5**	**(19.0)**	**2,519.5**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**524.8**	**524.8**	**(18.8)**	**506.0**
Other comprehensive (expense)/income:									
Foreign currency translation	**–**	**–**	**–**	**(0.7)**	**–**	**(21.6)**	**(22.3)**	**–**	**(22.3)**
Remeasurements of retirement benefit schemes	**–**	**–**	**–**	**–**	**–**	**(85.3)**	**(85.3)**	**–**	**(85.3)**
Tax credit on retirement benefit schemes	**–**	**–**	**–**	**–**	**–**	**31.8**	**31.8**	**–**	**31.8**
Cash flow and net investment hedges									
– fair value movements in other comprehensive income	**–**	**–**	**–**	**(117.6)**	**–**	**7.7**	**(109.9)**	**–**	**(109.9)**
– reclassified and reported in net profit[4]	**–**	**–**	**–**	**36.4**	**–**	**–**	**36.4**	**–**	**36.4**
– amount recognised in inventories	**–**	**–**	**–**	**18.7**	**–**	**–**	**18.7**	**–**	**18.7**
Tax on cash flow hedges and net investment hedges	**–**	**–**	**–**	**12.2**	**–**	**–**	**12.2**	**–**	**12.2**
Other comprehensive expense	**–**	**–**	**–**	**(51.0)**	**–**	**(67.4)**	**(118.4)**	**–**	**(118.4)**
Total comprehensive (expense)/income	**–**	**–**	**–**	**(51.0)**	**–**	**457.4**	**406.4**	**(18.8)**	**387.6**
Transactions with owners:									
Dividends	**–**	**–**	**–**	**–**	**–**	**(273.6)**	**(273.6)**	**–**	**(273.6)**
Transactions with non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**(39.3)**	**(39.3)**	**37.2**	**(2.1)**
Shares issued on exercise of employee share options	**4.6**	**40.4**	**–**	**–**	**–**	**–**	**45.0**	**–**	**45.0**
Credit for share-based payments	**–**	**–**	**–**	**–**	**–**	**21.3**	**21.3**	**–**	**21.3**
Deferred tax on share schemes	**–**	**–**	**–**	**–**	**–**	**9.0**	**9.0**	**–**	**9.0**
As at 29 March 2014	**408.1**	**355.5**	**2,202.6**	**(41.8)**	**(6,542.2)**	**6,325.1**	**2,707.3**	**(0.6)**	**2,706.7**

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).
2. 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. As at 1 April 2012 the reserve also included discretionary distributions to the Marks & Spencer UK Pension Scheme of £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).
3. The 'Retained earnings reserve' includes a cumulative £7.1m loss (last year £14.5m gain) in the currency reserve.
4. Amounts reclassified and reported in net profit have all been recorded in cost of sales.

Consolidated cash flow statement

	Notes	52 weeks ended 29 March 2014 £m	52 weeks ended 30 March 2013 £m
Cash flows from operating activities			
Cash generated from operations	26	**1,175.5**	1,246.2
Income tax paid		**(45.9)**	(106.0)
Net cash inflow from operating activities		**1,129.6**	1,140.2
Cash flows from investing activities			
Proceeds on property disposals		**25.0**	–
Purchase of property, plant and equipment		**(440.1)**	(642.6)
Purchase of intangible assets		**(201.5)**	(187.1)
(Purchase)/sale of current financial assets		**(1.7)**	243.4
Interest received		**3.4**	5.9
Net cash used in investing activities		**(614.9)**	(580.4)
Cash flows from financing activities			
Interest paid[1]		**(132.7)**	(135.2)
Cash inflow from borrowings		**167.5**	0.5
Drawdown of syndicated loan notes		**154.1**	81.0
Issue of medium-term notes		**–**	395.6
Redemption of medium-term notes		**(400.0)**	(606.4)
Decrease in obligations under finance leases		**(7.3)**	(11.0)
Payment of liability to the Marks & Spencer UK Pension Scheme		**(50.3)**	(71.9)
Equity dividends paid		**(273.6)**	(271.3)
Shares issued on exercise of employee share options		**44.2**	22.9
Net cash used in financing activities		**(498.1)**	(595.8)
Net cash inflow/(outflow) from activities		**16.6**	(36.0)
Effects of exchange rate changes		**(1.6)**	0.9
Opening net cash		**160.7**	195.8
Closing net cash	27	**175.7**	160.7

1. Includes interest on the partnership liability to the Marks & Spencer UK Pension Scheme.

	Notes	52 weeks ended 29 March 2014 £m	52 weeks ended 30 March 2013 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		**(2,614.3)**	(1,857.1)
Net cash inflow/(outflow) from activities		**16.6**	(36.0)
Increase/(decrease) in current financial assets		**1.7**	(243.4)
Decrease in debt financing		**136.0**	132.7
Partnership liability to the Marks & Spencer UK Pension Scheme (non cash)		**–**	(606.0)
Exchange and other non cash movements		**(3.6)**	(4.5)
Movement in net debt		**150.7**	(757.2)
Closing net debt	27	**(2,463.6)**	(2,614.3)

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 35 as well as the Group's principal risks and uncertainties as set out on pages 16 to 17. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements.

The following IFRS, IFRS IC interpretations and amendments are effective for the first time in this financial year:

IAS 19 (revised) 'Employee Benefits' has been adopted in the financial year. The revised standard replaces the expected return on plan assets and the interest cost on liabilities with a net interest expense calculated by applying the discount rate to the net defined benefit asset or liability. In addition, administration costs on pension funds are now recognised in the profit or loss when the administration services are performed. Previously the Group included an expense reserve in the defined benefit obligation. The revised standard has retrospective application. The adoption of the revised standard has resulted in the following changes:

Income Statement (total profit after tax decrease of £13.2m):

- Service cost increased by £3.0m;
- Pension interest income decreased by £14.1m; and
- Income tax expense decreased by £3.9m.

Statement of Financial Position (total net asset increase of £33.1m):

- Net retirement benefit asset increased by £43.0m; and
- Deferred tax liability increased by £9.9m.

Retained Earnings (total increase of £33.1m):

- Opening retained earnings increased by £34.6m;
- Profit after tax decreased by £13.2m;
- Remeasurements of retirement benefit assets recognised in other comprehensive income (OCI) increased by £15.1m; and
- Tax on retirement benefit scheme recognised in OCI increased by £3.4m.

The Group has adopted the amendments to IAS 1 'Presentation of items of other comprehensive income', which require items of other comprehensive income to be grouped by those items that will be reclassified subsequently to profit or loss and those that will never be reclassified. The amendments have been applied retrospectively and the presentation of items of comprehensive income have been regrouped to reflect the change.

The Group has adopted IFRS 13 'Fair value measurement' and the measurement and disclosure requirements are applicable for the financial year beginning 31 March 2013. IFRS 13 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. This has no material impact on the Group.

The Group has adopted the amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' for the first time in the current year. Refer to note 21.

The Group has also early adopted the amendments to IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets' for the first time in the current year. Refer to note 14.

There are no other new standards or amendments to standards which are mandatory for the first time in this financial year that have had any material impact on the Group.

IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other Entities' have received EU endorsement and are applicable for the financial year beginning 30 March 2014. They are not expected to have a material impact on the Group.

There are no other IFRS, IFRS IC interpretations or amendments that have been issued but 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.

1 Accounting policies continued

Subsidiaries continued

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.

The net interest cost on the net retirement benefit asset/liability is calculated by applying the discount rate, measured at the beginning of the year, to the net defined benefit asset/liability and is included as a single net amount in finance income.

Remeasurements being actuarial gains and losses, together with the difference between actual investment returns and the return implied by the net interest cost, are recognised immediately in the statement of comprehensive income.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Intangible assets

A. Goodwill Goodwill arising on consolidation represents the excess of the 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 and buildings are included in prepayments at cost and are amortised over the life of the lease.

Notes to the financial statements continued

1 Accounting policies continued

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. 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, except when deferred in other comprehensive income as qualifying cash flow hedge and qualifying net investment hedges.

Taxation

Tax expense comprises current and deferred tax. Tax is recognised in the income statement, except to the extent it relates to items recognised in other comprehensive income or directly in equity, in which case the related tax is also recognised in other comprehensive income or directly in equity.

Deferred tax is accounted for using a temporary difference approach, and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, applying tax rates and laws enacted or substantively enacted at the end of the reporting period.

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.

1 Accounting policies continued

Financial instruments continued

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. They are subsequently held at amortised cost. 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.

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.

Notes to the financial statements continued

1 Accounting policies continued

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.

F. Inventory valuation Inventories are stated at the lower of cost and net realisable value, on a weighted average cost basis which requires the estimation of the eventual sales price of goods to customers in the future.

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;
- one-off pension credits arising on changes to the defined benefit scheme rules and practices;
- interest relating to significant and one-off repayments from tax litigation claims;
- restructuring costs;
- significant and one-off impairment charges and provisions that distort underlying trading;
- fair value movement in financial instruments;
- costs relating to strategy changes that are not considered normal operating costs of the underlying business; and
- adjustment in income 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.

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:

	2014			2013		
	Management £m	**Adjustment[2] £m**	**Statutory £m**	Management (restated)[3] £m	Adjustment[2] £m	Statutory (restated)[3] £m
General Merchandise	**4,094.5**	**(2.0)**	**4,092.5**	4,090.3	3.6	4,093.9
Food	**5,063.2**	**–**	**5,063.2**	4,857.5	–	4,857.5
UK revenue	**9,157.7**	**(2.0)**	**9,155.7**	8,947.8	3.6	8,951.4
Franchised	**404.0**	**–**	**404.0**	392.6	–	392.6
Owned	**750.0**	**–**	**750.0**	682.8	–	682.8
International revenue	**1,154.0**	**–**	**1,154.0**	1,075.4	–	1,075.4
Group revenue	**10,311.7**	**(2.0)**	**10,309.7**	10,023.2	3.6	10,026.8
UK operating profit[1]	**619.2**	**(18.9)**	**600.3**	658.4	(25.6)	632.8
International operating profit	**122.7**	**(28.5)**	**94.2**	120.2	–	120.2
Group operating profit	**741.9**	**(47.4)**	**694.5**	778.6	(25.6)	753.0
Finance income	**20.1**	**4.9**	**25.0**	12.4	–	12.4
Finance costs	**(139.1)**	**–**	**(139.1)**	(142.9)	(75.3)	(218.2)
Profit before tax	**622.9**	**(42.5)**	**580.4**	648.1	(100.9)	547.2

1. UK statutory profit includes £6.4m (last year £35.6m) 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 £57.2m (last year £51.1m), which reflects a non-GAAP adjustment of £50.8m (last year £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. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (note 1).

Other segmental information

	2014			2013		
	UK £m	**International £m**	**Total £m**	UK (restated)[1,2] £m	International[2] £m	Total (restated)[1] £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	**688.6**	**65.1**	**753.7**	761.6	59.7	821.3
Depreciation and amortisation	**434.9**	**34.4**	**469.3**	421.7	28.8	450.5
Impairment and asset write-offs	**21.3**	**13.9**	**35.2**	9.6	7.2	16.8
Total assets	**7,411.4**	**491.6**	**7,903.0**	7,121.7	489.0	7,610.7
Non-current assets	**6,157.6**	**376.9**	**6,534.5**	5,965.4	377.4	6,342.8

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).
2. Re-presentation for the prior year for an adjustment relating to an intercompany offset between UK and International segmental assets whilst not affecting total assets.

Notes to the financial statements continued

3 Expense analysis

	2014 Underlying £m	2014 Adjustments £m	2014 Total £m	2013 Underlying (restated)[1] £m	2013 Adjustments £m	2013 Total (restated)[1] £m
Revenue	**10,309.7**	**–**	**10,309.7**	10,026.8	–	10,026.8
Cost of sales	**(6,439.0)**	**–**	**(6,439.0)**	(6,230.3)	–	(6,230.3)
Gross profit	**3,870.7**	**–**	**3,870.7**	3,796.5	–	3,796.5
Selling and administrative expenses	**(3,224.3)**	**–**	**(3,224.3)**	(3,110.0)	–	(3,110.0)
Other operating income	**95.5**	**–**	**95.5**	92.1	–	92.1
Non-GAAP adjustments to underlying profit (see note 5)	**–**	**(47.4)**	**(47.4)**	–	(25.6)	(25.6)
Operating profit	**741.9**	**(47.4)**	**694.5**	778.6	(25.6)	753.0

The selling and administrative expenses are further analysed below:

	2014 Total £m	2013 Total (restated)[1] £m
Employee costs (see note 10A)	**1,410.9**	1,324.2
Occupancy costs	**690.7**	651.2
Repairs, renewals and maintenance of property	**102.1**	96.7
Depreciation, amortisation and asset write-offs	**477.8**	463.2
Other costs	**542.8**	574.7
Selling and administrative expenses	**3,224.3**	3,110.0

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

4 Profit before taxation

The following items have been included in arriving at profit before taxation:

	2014 £m	2013 £m
Net foreign exchange gains	**(5.1)**	–
Cost of inventories recognised as an expense	**5,803.5**	5,639.6
Depreciation of property, plant and equipment		
– owned assets	**372.5**	364.2
– under finance leases	**7.2**	9.9
Amortisation of intangible assets	**89.6**	76.4
Profit on property disposals	**(82.2)**	–
Operating lease rentals payable		
– property	**312.5**	293.9
– fixtures, fittings and equipment	**2.9**	4.2

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:

	2014 £m	2013 £m
Annual audit of the Company and the consolidated financial statements	**0.6**	0.8
Audit of subsidiary companies	**0.9**	1.0
Other assurance services	**0.2**	0.2
Tax compliance services	**0.3**	0.3
Tax advisory services	**0.4**	0.3
Other services	**0.4**	0.5
	2.8	3.1

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:

- The profit on property disposal relates to the sale of a warehouse site and mock shop in White City on 26 July 2013 to St James Group Ltd for a total consideration of £100m, £25m received on completion and the remaining consideration to be deferred over three years. The property has been leased back to Marks and Spencer plc for a period of five years and has been recognised as an operating lease;
- Pension credit arising from changes to the Marks and Spencer Ireland defined benefit scheme rules (£17.5m) whereby the discretions for post retirement pension increases have been removed and pension credit arising from the cessation of the practice of granting pension increases to transferred-in pensions for all members in the UK defined benefit scheme (£10.0m);
- Interest income (net of fees) on tax repayment relating to the successful outcome of litigation in relation to the Group's claim for UK tax relief of losses of its former European subsidiaries. Refer to note 7;
- Restructuring costs relating to the Group's strategy to transition to a one-tier distribution network and the closure costs of the legacy logistics site (£53.2m), and restructuring costs in Ireland following a thorough commercial review of the Ireland business (£24.1m). This includes costs relating to the closure of four stores, redundancies and other associated costs;
- International store review relates to the impairment of assets (£13.6m) and onerous lease provisions (£8.3m) in poor performing international stores in non-strategic locations in China and the Czech Group;
- 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%;
- Strategic programme costs relating to the strategy announcements made in November 2010 and include the costs associated with the initial Focus on the UK plans. This includes asset write-offs and accelerated depreciation. These costs are not considered normal operating costs of the business. We do not anticipate incurring any further costs in relation to this programme;
- 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 change 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;
- 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 obliged to refund any fees received from HSBC although future income may be impacted by significant one-off deductions. Last year, M&S Bank recognised an estimated liability for redress to customers in respect of possible mis-selling of financial products in its audited financial statements for the year ended 31 December 2012 with a further estimated liability in its audited financial statements for the year ended 31 December 2013. The Group's fee income from M&S Bank has been reduced by the deduction of this estimated liability (under the Relationship Agreement) in both the current and prior year and this reduction 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. We are continuing discussions with M&S Bank to determine 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 are:

	Notes	**2014 £m**	2013 £m
Profit on property disposal	4	**82.2**	–
UK and Ireland one-off pension credits	11	**27.5**	–
Interest income on tax repayment net of fees	6, 7	**3.3**	–
Restructuring costs	15, 22	**(77.3)**	(9.3)
International store review	15, 22	**(21.9)**	–
IAS 39 Fair value movement of embedded derivative	21	**(3.5)**	5.8
Strategic programme costs		**(2.0)**	(6.6)
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	**(50.8)**	(15.5)
Total adjustments		**(42.5)**	(100.9)

Notes to the financial statements continued

6 Finance income/costs

	2014 £m	2013 (restated)[1] £m
Bank and other interest receivable	**8.4**	5.3
Pension net finance income	**11.7**	7.1
Underlying finance income	**20.1**	12.4
Interest income on tax repayment (see note 7)	**4.9**	–
Finance income	**25.0**	12.4
Interest on bank borrowings	**(3.3)**	(2.1)
Interest payable on syndicated bank facility	**(5.0)**	(6.1)
Interest payable on medium-term notes	**(110.5)**	(114.3)
Interest payable on finance leases	**(2.3)**	(2.8)
Unwind of discount on financial instruments	**(0.2)**	(1.0)
Unwinding of discount on partnership liability to the Marks and Spencer UK Pension Scheme	**(17.8)**	(16.6)
Underlying finance costs	**(139.1)**	(142.9)
Fair value movement on buy back of the Puttable Callable Reset medium-term notes	**–**	(75.3)
Finance costs	**(139.1)**	(218.2)
Net finance costs	**(114.1)**	(205.8)

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

7 Income tax expense

A. Taxation charge

	2014 £m	2013 (restated)[1] £m
Current tax		
UK corporation tax on profits for the year at 23% (last year 24%)		
– current year	**97.1**	125.5
– adjustments in respect of prior years	**(55.8)**	(24.6)
UK current tax	**41.3**	100.9
Overseas current taxation		
– current year	**14.5**	12.8
– adjustments in respect of prior years	**(2.7)**	3.8
Total current taxation	**53.1**	117.5
Deferred tax		
– origination and reversal of temporary differences	**17.7**	(6.6)
– adjustments in respect of prior years	**26.2**	(2.8)
– changes in tax rate	**(22.6)**	(5.7)
Total deferred tax (see note 23)	**21.3**	(15.1)
Total income tax expense	**74.4**	102.4

B. Taxation reconciliation

The effective tax rate was 12.8% (last year 18.7%) and is reconciled below:

	2014 £m	2013 (restated)[1] £m
Profit before tax	**580.4**	547.2
Notional taxation at the standard UK corporation tax rate of 23% (last year 24%)	**133.5**	131.5
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**4.3**	3.0
Other income and expenses that are not taxable or allowable for tax purposes	**(5.4)**	(8.1)
Retranslation of deferred tax balances due to the change in statutory UK tax rates	**(22.5)**	(5.4)
Overseas profits taxed at rates different to those of the UK	**(3.7)**	(4.0)
Overseas tax losses where there is no relief anticipated in the foreseeable future	**8.7**	9.3
Adjustments to current and deferred tax charges in respect of prior periods	**(6.4)**	(3.2)
Adjustments to underlying profit:		
– international store review charges where no tax relief is available	**4.9**	–
– property disposal gain covered by other losses arising in the year	**(13.0)**	–
– deferred tax rate change benefit	**–**	(0.3)
Non-underlying adjustment to current and deferred tax charges in respect of prior periods	**(26.0)**	(20.4)
Total income tax expense	**74.4**	102.4

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

7 Income tax expense continued

B. Taxation reconciliation continued

After excluding non-underlying items the underlying effective tax rate was 18.8% (last year 22.7%).

The non-underlying adjustment to the tax charge in respect of prior periods arises from the successful outcome of litigation in relation to the Group's claim for UK tax relief of losses of its former European subsidiaries (£18.5m, last year £nil) and release of provisions following settlement of historic disputes with the tax authorities (£7.5m, last year £20.4m).

On 2 July 2013, the Finance Bill received its final reading in the House of Commons and so the previously announced reduced rates of corporation tax of 21% from 1 April 2014 to 31 March 2015 and 20% from 1 April 2015 onwards were substantively enacted. The Group has remeasured its UK deferred tax assets and liabilities at the end of the reporting period at 20%, which has resulted in the recognition of a deferred tax credit of £22.5m in the income statement (reducing the total effective tax rate by 3.9%), and the recognition of a deferred tax credit of £11.3m in other comprehensive income.

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:

	2014 £m	2013 (restated)[1] £m
Profit attributable to owners of the parent	**524.8**	453.5
Add/(less) (net of tax):		
Profit on property disposal	**(76.3)**	–
UK and Ireland one-off pension credit	**(23.3)**	–
Interest income on tax repayment net of fees	**(2.5)**	–
Restructuring costs	**62.5**	7.1
International store review	**17.3**	–
IAS 39 Fair value movement of embedded derivative	**2.8**	(4.7)
Strategic programme costs	**1.6**	5.0
Fair value movement 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	**39.1**	11.8
Non-underlying adjustment to tax charge in respect of prior periods	**(26.0)**	(20.4)
Underlying profit attributable to owners of the parent	**520.0**	509.6

	Million	Million
Weighted average number of ordinary shares in issue	**1,615.0**	1,599.7
Potentially dilutive share options under Group's share option schemes	**14.1**	10.6
Weighted average number of diluted ordinary shares	**1,629.1**	1,610.3

	Pence	Pence
Basic earnings per share	**32.5**	28.3
Diluted earnings per share	**32.2**	28.2
Underlying basic earnings per share	**32.2**	31.9
Underlying diluted earnings per share	**31.9**	31.6

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

Notes to the financial statements continued

9 Dividends

	2014 per share	2013 per share	2014 £m	2013 £m
Dividends on equity ordinary shares				
Paid final dividend	**10.8p**	10.8p	**173.6**	172.3
Paid interim dividend	**6.2p**	6.2p	**100.0**	99.0
	17.0p	17.0p	**273.6**	271.3

The directors have proposed a final dividend in respect of the year ended 29 March 2014 of 10.8p per share amounting to a dividend of £176.0m. It will be paid on 11 July 2014 to shareholders on the register of members as at close of business on 30 May 2014, subject to approval of shareholders at the Annual General Meeting, to be held on 8 July 2014. 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 28 May 2014. For those shareholders electing to receive the DRIP the last date for receipt of a new election is 20 June 2014.

The Group's policy to grow dividends in line with underlying earnings per share is explained in the Financial Review on page 32.

10 Employees

A. Aggregate remuneration

The aggregate remuneration and associated costs of Group employees were:

	2014 Total £m	2013 Total (restated)[1] £m
Wages and salaries	**1,197.5**	1,136.7
Social security costs	**85.9**	75.8
Other pension costs	**92.4**	71.4
Share-based payments (see note 13)	**21.3**	25.8
Employee welfare and other personnel costs	**49.5**	51.0
Capitalised staffing costs	**(35.7)**	(36.5)
Total aggregate remuneration	**1,410.9**	1,324.2

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

Details of key management compensation are given in note 28.

B. Average monthly number of employees

	2014	2013
UK stores		
– management and supervisory categories	**5,533**	5,511
– other	**67,678**	65,053
UK head office		
– management and supervisory categories	**3,176**	2,975
– other	**724**	790
UK operations		
– management and supervisory categories	**92**	58
– other	**660**	132
Overseas	**7,950**	7,215
Total average number of employees	**85,813**	81,734

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 61,176 (last year 57,518).

C. Directors' emoluments

Emoluments of directors of the Company are summarised below.

	2014 £000	2013 £000
Aggregate Emoluments	**6,395**	8,149

The emoluments include payments to directors who retired from the Board in 2013/14 of £430,000 (last year £482,000).

11 Retirement benefits

The Group provides pension arrangements for the benefit of its UK employees through the Marks & Spencer UK Pension Scheme (a defined benefit arrangement which was closed to new entrants with effect from 1 April 2002) and Your M&S Pension Saving Plan (a defined contribution arrangement which has been open to new members with effect from 1 April 2003).

The defined contribution plan is a pension plan under which the Group pays contributions to an independently administered fund – such contributions are based upon a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Group and the member, together with investment returns earned on the contributions arising from the performance of each individual's chosen investments and the type of pension the member chooses to buy at retirement. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee.

The defined benefit arrangement operates on a final salary basis and at the year end had some 13,000 active members (last year 13,000), 55,000 deferred members (last year 55,000) and 51,000 pensioners (last year 51,000). At the year end, the defined contribution arrangement had some 38,000 active members (last year 33,000) and some 5,000 deferred members (last year 3,000). The scheme is governed by a Trustee board which is independent of the Group.

The Group also operates a small funded defined benefit pension scheme in the Republic of Ireland. This scheme ceased to future accrual from 31 October 2013. Retirement benefits also include a UK post-retirement healthcare scheme and unfunded retirement benefits.

Within the total Group retirement benefit cost of £53.5m (last year restated £64.3m), £27.0m (last year restated £40.0m) relates to the UK defined benefit section, £41.7m (last year £20.3m) to the UK defined contribution section and £(15.2)m (last year £4.0m) to other retirement benefit schemes.

The most recent actuarial valuation of the UK Defined Benefit Pension Scheme was carried out at 31 March 2012 and showed a deficit of £290m. As a result a funding plan of £112m cash contributions was agreed with the Trustees. The Group has contributed c.£28m to the UK defined benefit scheme on 31 March 2014 and expects to contribute an additional c.£28m each year until 31 March 2017. The difference between the valuation and the funding plan is expected to be met by better than expected investment returns on the scheme's assets. Future contributions to meet the cost of accruing benefits to the UK scheme are made at the rate of 23.4% of pensionable salaries up to the next full actuarial valuation.

By funding its defined benefit pension schemes, the Group is exposed to the risk that the cost of meeting its obligations is higher than anticipated. This could occur for several reasons, for example:

- Investment returns on the schemes' assets may be lower than anticipated, especially if falls in asset values are not matched by similar falls in the value of the schemes' liabilities;
- The level of price inflation may be higher from that assumed, resulting in higher payments from the schemes;
- Scheme members may live longer than assumed, for example due to unanticipated advances in medical healthcare. Members may also exercise (or not exercise) options in a way that leads to increases in the schemes' liabilities, for example through early retirement or commutation of pension for cash;
- Legislative changes could also lead to an increase in the schemes' liabilities.

In addition, the Group has an obligation to the UK defined benefit scheme via the interest in the Scottish Limited Partnership (refer to note 12), through which the Group is exposed to additional risks. In particular, under the legal terms of the Partnership, a default by the Group on the rental payments to the Partnership or a future change in legislation could trigger earlier or higher payments, or an increase in the collateral to be provided by the Group.

A. Pensions and other post-retirement liabilities

	2014 £m	2013 (restated)[1] £m
Total market value of assets	**6,729.4**	6,930.0
Present value of scheme liabilities	**(6,528.7)**	(6,680.9)
Net funded pension plan asset	**200.7**	249.1
Unfunded retirement benefits	**(0.7)**	(0.8)
Post-retirement healthcare	**(11.0)**	(12.3)
Net retirement benefit asset	**189.0**	236.0
Analysed in the statement of financial position as:		
Retirement benefit asset	**200.7**	249.1
Retirement benefit deficit	**(11.7)**	(13.1)
	189.0	236.0

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

Notes to the financial statements continued

11 Retirement benefits continued

B. Financial assumptions

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:

	2014 %	2013 %
Rate of increase in salaries	**1.0**	1.0
Rate of increase in pensions in payment for service	**2.2 – 3.3**	2.4 – 3.2
Discount rate	**4.45**	4.30
Inflation rate	**3.4**	3.4
Long-term healthcare cost increases	**7.4**	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 2.4%) 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 0.5% the surplus would increase/decrease by c.£50m. If the inflation rate increased/decreased by 0.25%, the surplus would decrease/increase by c.£50m.

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 lite tables, adjusted to allow for the experience of scheme pensioners. The life expectancies underlying the valuation are as follows:

		2014	2013
Current pensioners (at age 65)	– males	**22.4**	22.4
	– females	**24.1**	24.1
Future pensioners (at age 65)	– males	**21.8**	21.8
	– females	**24.6**	24.5
Deferred pensioners (at age 65)	– males	**22.6**	22.5
	– females	**25.4**	25.4

An increase of one year in the life expectancies would decrease the surplus by c.£230m.

D. Analysis of assets

The investment strategy of the UK defined benefit pension scheme is driven by its liability profile, in particular its inflation-linked pension benefits. In addition to its interest in the Scottish Limited Partnership (refer to note 12), the scheme invests in different types of bonds (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly the scheme has hedging that covers 80% of interest rate movements and 84% of inflation movements, as measured on the Trustee's funding assumptions which use a discount rate derived from gilt yields.

The fair value of the plan assets at the end of the reporting period for each category, are as follows:

	2014 £m	2013 (restated)[1] £m
Debt investments		
– Government	**2,319.0**	2,531.0
– Corporate Bonds	**1,255.7**	1,254.0
– Asset backed securities and structured debt	**232.0**	207.8
Scottish Limited Partnership interest (see note 12)	**574.7**	645.7
Equity investments – quoted	**998.1**	906.7
Equity investments – unquoted	**110.1**	142.6
Property	**278.6**	208.8
Derivatives		
– Interest and inflation rate swap contracts	**51.3**	324.3
– Foreign exchange contracts and other derivatives	**123.3**	167.9
Hedge and reinsurance funds	**329.8**	324.7
Cash and cash equivalents	**444.1**	159.9
Other	**12.7**	56.6
	6,729.4	6,930.0

1. Restatement relates to the categorisation of assets due to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

11 Retirement benefits continued

D. Analysis of assets continued

The fair values of the above equity and debt investments are determined based on publicly available market prices wherever available. Unquoted investments, hedge funds and reinsurance funds are stated at fair value estimates provided by the manager of the investment or fund. Property includes both quoted and unquoted investments. The market value of the Scottish Limited Partnership interest is based on the expected cash flows and benchmark asset-backed credit spreads. It is the policy of the Scheme to hedge a proportion of interest rate and inflation risk. The Scheme reduces its foreign currency exposure using forward foreign exchange contracts.

At year end, the UK scheme indirectly held 199,523 (last year 150,955) ordinary shares in the Company through its investment in UK Equity Index Funds.

E. Analysis of amounts charged against profits

Amounts recognised in comprehensive income in respect of defined benefit plans are as follows:

	2014 £m	2013 (restated)[1] £m
Current service cost	**88.7**	68.8
Administration costs	**3.0**	3.0
Past service costs – curtailment charge	**1.0**	1.0
Past service cost – plan amendments	**–**	(1.4)
UK and Ireland one-off pension credits	**(27.5)**	–
Net interest income	**(11.7)**	(7.1)
Total	**53.5**	64.3
Remeasurement on the net defined benefit surplus:		
Actual return on scheme assets excluding amounts included in net interest income	**(322.0)**	625.3
Actuarial (loss) – experience	**(17.4)**	(11.0)
Actuarial (loss) – demographic assumptions	**–**	(80.0)
Actuarial gain/(loss) – financial assumptions	**254.1**	(428.5)
Components of defined benefit cost recognised in other comprehensive income	**(85.3)**	105.8
Total	**(31.8)**	170.1

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

F. Scheme assets

Changes in the fair value of the scheme assets are as follows:

	2014 £m	2013 (restated)[1] £m
Fair value of scheme assets at start of year	**6,930.0**	6,186.4
Interest income based on discount rate	**294.0**	282.0
Actual return on scheme assets excluding amounts included in net interest income[2]	**(322.0)**	625.3
Employer contributions	**92.1**	70.9
Benefits paid	**(261.2)**	(234.0)
Administration costs	**(3.0)**	(3.0)
Exchange movement	**(0.5)**	2.4
Fair value of scheme assets at end of year	**6,729.4**	6,930.0

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1)).
2. The actual return on scheme assets was a loss of £28m (last year restated return of £907m). Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

Notes to the financial statements continued

11 Retirement benefits continued

G. Pensions and other post-retirement liabilities

Changes in the present value of retirement benefit obligations are as follows:

	2014 £m	2013 (restated)[1] £m
Present value of obligation at start of year	**6,694.0**	6,063.4
Current service cost	**88.7**	68.8
Curtailment charge	**1.0**	1.0
Past service cost	**–**	(1.4)
One-off UK and Ireland pension credits (note 5)	**(27.5)**	–
Interest cost	**282.3**	274.9
Benefits paid	**(261.2)**	(234.0)
Actuarial loss – experience	**17.4**	11.0
Actuarial loss – demographic assumptions	**–**	80.0
Actuarial (gain)/loss – financial assumptions	**(254.1)**	428.5
Exchange movement	**(0.2)**	1.8
Present value of obligation at end of year	**6,540.4**	6,694.0
Analysed as:		
Present value of pension scheme liabilities	**6,528.7**	6,680.9
Unfunded pension plans	**0.7**	0.8
Post-retirement healthcare	**11.0**	12.3
Present value of obligation at end of year	**6,540.4**	6,694.0

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

The average duration of the defined benefit obligation at 29 March 2014 is 18 years (last year 18 years).

12 Marks and Spencer 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 £1.6bn) 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.

This distribution was previously discretionary at the instance of Marks and Spencer plc. 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 was reflected by the derecognition of the related equity instrument and recognition of a financial liability from this date. The Partnership liability to the Marks and Spencer UK pension scheme of £568.7m is valued at the net present value of the future expected distributions from the Partnership.

During the year to 29 March 2014 an interest charge of £17.8m (last year £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 £574.7m (last year £645.7m), refer to note 11(D).

13 Share-based payments

The charge for share-based payments for the year was £21.3m (last year £25.8m). Of the total share-based payments charge, £9.6m (last year £13.4m) relates to the Save As You Earn Share Option scheme. The remaining charge is spread over the other schemes. Further details of the option and share schemes that the Group operates are provided in the Remuneration Report on pages 52 to 77.

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.

	2014		2013	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	**45,273,287**	**265.2p**	47,245,342	259.3p
Granted	**9,992,932**	**405.0p**	9,977,206	312.0p
Exercised	**(16,921,571)**	**237.7p**	(7,369,406)	266.0p
Forfeited	**(3,058,210)**	**300.6p**	(3,575,404)	273.3p
Expired	**(862,516)**	**450.2p**	(1,004,451)	418.0p
Outstanding at end of year	**34,423,922**	**311.6p**	45,273,287	265.2p
Exercisable at end of year	**1,879,073**	**253.3p**	1,700,575	366.9p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 448.1p (last year 370.4p).

The fair values of the options granted during the year have been calculated using the Black-Scholes model assuming the inputs shown below:

	2014	2013
	3-year plan	3-year plan
Grant date	**Nov 13**	Nov 12
Share price at grant date	**506p**	389p
Exercise price	**405p**	312p
Option life in years	**3 years**	3 years
Risk-free rate	**0.8%**	0.3%
Expected volatility	**24.2%**	25.2%
Expected dividend yield	**3.4%**	4.4%
Fair value of option	**105p**	74p

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 10%) 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	**2014**	2013	**2014**	2013	Option price
January 2008	**–**	617,258	**–**	0.3	517p
January 2009	**1,241,356**	12,912,056	**0.3**	1.3	203p
January 2010	**497**	941,711	**–**	0.3	292p
January 2011	**791,518**	5,315,855	**0.3**	1.3	319p
January 2012	**14,423,919**	15,817,394	**1.3**	2.3	258p
January 2013	**8,353,334**	9,669,013	**2.3**	3.3	312p
January 2014	**9,613,298**	–	**3.3**	–	405p
	34,423,922	45,273,287	**2.0**	2.0	312p

Notes to the financial statements continued

13 Share-based payments continued

B. Performance Share Plan*

The Performance Share Plan is the primary long-term incentive plan for approximately 100 of the most senior managers and was first approved by shareholders in 2005. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which the awards vest is based on cumulative underlying basic earnings per share, return on capital employed, and revenue 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 pages 66 to 67. Awards under this scheme have been made in each year since 2005.

During the year, 7,113,690 shares (last year 9,333,652) were awarded under the Plan. The weighted average fair value of the shares awarded was 440.7p (last year 329.7p). As at 29 March 2014, 21,170,536 shares (last year 21,492,589) 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, 1,658,133 shares (last year 1,181,637) have been awarded under the plan in relation to the annual bonus. The fair value of the shares awarded was 437.0p (last year 325.1p). As at 29 March 2014, 5,024,149 shares (last year 6,576,038) 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, 798,196 shares (last year 1,257,044) have been awarded under the Plan. The weighted average fair value of the shares awarded was 479.2p (last year 371.0p). As at 29 March 2014, 2,271,826 shares (last year 3,177,564) were outstanding under the scheme.

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 10-year period, after approval by shareholders at the 2009 AGM. The scheme is subject to Irish Revenue rules which limit the maximum monthly saving to €500 per month. The Company chose in 2009 to set a monthly savings cap of €320 per month to align the maximum savings amount allowed within the UK scheme. When the savings contract is started, options are granted to acquire the number of shares that the total savings will buy when the contract matures, at a discounted price set at the start of the scheme. The price at which the options may be offered is 80% of the average mid-market price for three consecutive days preceding the offer date. Options cannot normally be exercised until a minimum of three years has elapsed.

During the year, 62,734 options (last year 147,557) were granted, at a fair value of 105.1p (last year 73.8p). As at 29 March 2014, 251,545 options (last year 400,174) were outstanding under the scheme.

F. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the Trust) holds 2,595,343 shares (last year 8,046,847) with a book value of £8.6m (last year £26.9m) and a market value of £11.8m (last year £31.4m). 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. In addition, the Trust has entered into a call option to purchase up to 1,600,000 of the Company's shares expiring June 2014. 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.

14 Intangible assets

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 31 March 2012					
Cost or valuation	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 or valuation	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
Year ended 29 March 2014					
Opening net book value	**92.6**	**67.2**	**352.0**	**183.2**	**695.0**
Additions	**3.3**	**–**	**128.0**	**72.6**	**203.9**
Transfers	**–**	**–**	**137.4**	**(137.4)**	**–**
Amortisation charge	**–**	**(5.3)**	**(84.3)**	**–**	**(89.6)**
Exchange difference	**(0.7)**	**–**	**(0.2)**	**–**	**(0.9)**
Closing net book value	**95.2**	**61.9**	**532.9**	**118.4**	**808.4**
At 29 March 2014					
Cost or valuation	**129.6**	**112.4**	**878.6**	**118.4**	**1,239.0**
Accumulated amortisation and impairment	**(34.4)**	**(50.5)**	**(345.7)**	**–**	**(430.6)**
Net book value	**95.2**	**61.9**	**532.9**	**118.4**	**808.4**

Goodwill and indefinite life intangibles relate to the following business units:

	per una £m	Marks and Spencer Czech Republic a.s. £m	Supreme Trademarks Private Limited £m	Marks and Spencer (Hungary) KFT £m	Total goodwill £m	M&S Mode Indefinite life intangible £m
Net book value at 30 March 2013	**69.5**	**15.4**	**7.7**	**–**	**92.6**	**32.4**
Additions	**–**	**–**	**–**	**3.3**	**3.3**	**–**
Impairment	**–**	**–**	**–**	**–**	**–**	**–**
Exchange difference	**–**	**0.1**	**(0.8)**	**–**	**(0.7)**	**–**
Net book value at 29 March 2014	**69.5**	**15.5**	**6.9**	**3.3**	**95.2**	**32.4**

Impairment testing

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 for each location.

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.

The value in use calculations use cash flows based on detailed financial budgets prepared by management covering a three year period. These budgets have regard to historic performance and knowledge of the current market, together with management's views on the future achievable growth and the impact of committed initiatives. The cash flows which derive from the budgets include ongoing capital expenditure required to maintain the store network. Cash flows beyond this three year period are extrapolated using a long-term growth rate.

The key assumptions in the value in use calculations are the long-term growth rate and the risk adjusted pre-tax discount rate. The long-term growth rate has been determined with reference to forecast GDP growth for the territories in which these businesses operate. Management believe this is the most appropriate indicator of long-term growth rates that is available. The long-term growth rate used is purely for the impairment testing of goodwill and brands 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. These growth

Notes to the financial statements continued

14 Intangible assets continued

Impairment testing continued

rates do not exceed the long-term average growth rate for the Group's retail businesses. 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.

The values attributed to the key assumptions are as follows:

	Long-term growth rate		Pre-tax discount rate	
	2014 %	2013 %	**2014 %**	2013 %
per una	**2.0**	2.0	**11.0**	10.7
Marks and Spencer Czech Republic a.s.	**2.5**	1.5	**13.1**	12.2
Supreme Trademarks Private Limited	**6.0**	6.0	**18.3**	17.4
Marks and Spencer (Hungary) KFT	**1.5**	–	**17.0**	–

The M&S Mode brands are tested based on the regions operating in the European business. The discount rates used to calculate value in use range from 13.1% to 28.9% (last year 12.2% to 20.9%). Cash flows beyond the three year period have been extrapolated at long-term growth rates ranging from 1.0% to 2.5% (last year nil% to 1.5%).

Sensitivity analysis

Whilst management believe the assumptions are realistic it is possible that an impairment would be identified if any of the above key assumptions were changed significantly. A sensitivity analysis has been performed on each of these key assumptions with other variables held constant. Management have concluded that there are no reasonably possible changes in any key assumptions that would cause the carrying amount of goodwill or brands to exceed the value in use.

15 Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 31 March 2012				
Cost	2,759.4	5,612.9	330.1	8,702.4
Accumulated depreciation and asset write-offs	(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 and asset write-offs	(305.5)	(3,988.4)	–	(4,293.9)
Net book value	2,511.6	2,209.7	312.4	5,033.7
Year ended 29 March 2014				
Opening net book value	**2,511.6**	**2,209.7**	**312.4**	**5,033.7**
Additions	**34.6**	**362.7**	**155.8**	**553.1**
Transfers	**41.7**	**169.1**	**(210.8)**	**–**
Disposals	**(15.2)**	**(5.3)**	**–**	**(20.5)**
Asset write-offs	**(14.3)**	**(14.9)**	**(6.0)**	**(35.2)**
Depreciation charge	**(15.0)**	**(364.7)**	**–**	**(379.7)**
Exchange difference	**(3.7)**	**(6.6)**	**(1.2)**	**(11.5)**
Closing net book value	**2,539.7**	**2,350.0**	**250.2**	**5,139.9**
At 29 March 2014				
Cost	**2,871.7**	**6,686.8**	**256.2**	**9,814.7**
Accumulated depreciation and asset write-offs	**(332.0)**	**(4,336.8)**	**(6.0)**	**(4,674.8)**
Net book value	**2,539.7**	**2,350.0**	**250.2**	**5,139.9**

The net book value above includes land and buildings of £43.7m (last year £43.9m) and equipment of £4.2m (last year £11.1m) 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.

16 Other financial assets

	2014 £m	2013 £m
Non-current		
Unlisted investments	**3.0**	3.0
Current		
Short-term investments[1]	**12.4**	10.7
Unlisted investments	**5.3**	6.2
	17.7	16.9

1. Includes £nil (last year £0.3m) and £1.5m (last year £0.3m) 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

	2014 £m	2013 £m
Non-current		
Other receivables	**82.8**	30.4
Prepayments and accrued income	**230.7**	235.0
	313.5	265.4
Current		
Trade receivables	**127.5**	113.7
Less: Provision for impairment of receivables	**(0.7)**	(5.4)
Trade receivables – net	**126.8**	108.3
Other receivables	**53.9**	29.1
Prepayments and accrued income	**128.8**	107.6
	309.5	245.0

Trade and other receivables that were past due but not impaired amounted to £6.4m (last year £1.8m) 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 £182.1m (last year £193.1m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.41% (last year 0.03%). These deposits have an average maturity of eight days (last year three days).

19 Trade and other payables

	2014 £m	2013 £m
Current		
Trade and other payables	**1,144.0**	972.7
Social security and other taxes	**58.4**	56.4
Accruals and deferred income	**490.4**	474.7
	1,692.8	1,503.8
Non-current		
Other payables	**334.0**	292.1

Notes to the financial statements continued

20 Borrowings and other financial liabilities

	2014 £m	2013 £m
Current		
Bank loans and overdrafts[1]	**445.5**	151.8
5.625% £400m medium-term notes 2014[4]	**–**	400.2
Finance lease liabilities	**3.2**	6.7
	448.7	558.7
Non-current		
Bank loans	**0.2**	0.3
6.250% US$500m medium-term notes 2017[3]	**306.3**	335.7
6.125% £400m medium-term notes 2019[2]	**422.3**	436.9
6.125% £300m medium-term notes 2021[2]	**302.1**	301.6
4.75% £400m medium-term notes 2025[2]	**392.3**	401.4
7.125% US$300m medium-term notes 2037[3]	**182.9**	200.7
Finance lease liabilities	**49.0**	50.7
	1,655.1	1,727.3
Total	**2,103.8**	2,286.0

1. Bank loans and overdrafts include 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.
4. On 24 March 2014 the Group repaid £400.2m of 5.625% medium-term notes.

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.

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.

21 Financial instruments continued

Financial risk management continued

(a) Liquidity/funding risk continued

At year end, the Group had a committed syndicated bank revolving credit facility of £1.325bn set to mature on 28 September 2018 and a facility of £150m set to mature on 16 May 2014 (with an option to extend to a facility of £100m maturing on 16 May 2015). These facilities contain 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 £80m (last year £105m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £233.9m (last year £81.0m) was drawn under the committed facilities and £22.5m (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 £1.1bn (last year £1.5bn) was in issuance as at the balance sheet date.

The 5.625% £400m medium-term loan note was repaid in March 2014.

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 £m	Total borrowings and other financial liabilities £m	Derivative assets £m	Derivative liabilities £m	Total £m
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)			
Timing of cash flows									
Within one year	**(211.6)**	**(233.9)**	**(93.5)**	**(5.5)**	**(71.9)**	**(616.4)**	**1,849.9**	**(1,879.6)**	**(29.7)**
Between one and two years	**(0.2)**	**–**	**(93.5)**	**(2.9)**	**(71.9)**	**(168.5)**	**207.4**	**(203.8)**	**3.6**
Between two and five years	**–**	**–**	**(562.6)**	**(6.9)**	**(215.6)**	**(785.1)**	**383.4**	**(414.4)**	**(31.0)**
More than five years	**–**	**–**	**(1,737.4)**	**(185.6)**	**(287.3)**	**(2,210.3)**	**425.5**	**(478.9)**	**(53.4)**
	(211.8)	**(233.9)**	**(2,487.0)**	**(200.9)**	**(646.7)**	**(3,780.3)**	**2,866.2**	**(2,976.7)**	**(110.5)**
Effect of discounting and foreign exchange	**–**	**–**	**881.1**	**148.7**	**78.0**	**1,107.8**			
At 29 March 2014	**(211.8)**	**(233.9)**	**(1,605.9)**	**(52.2)**	**(568.7)**	**(2,672.5)**			

The present value of finance lease liabilities is as follows:

	2014 £m	2013 £m
Within one year	**(3.2)**	(6.7)
Later than one year and not later than five years	**(1.2)**	(9.1)
Later than five years	**(47.8)**	(41.6)
Total	**(52.2)**	(57.4)

Notes to the financial statements continued

21 Financial instruments continued

Financial risk management continued

(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 the 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.

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	BBB+ £m	Total £m
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

	AAAm £m	**AAA £m**	**AA £m**	**AA- £m**	**A+ £m**	**A £m**	**A- £m**	**BBB+[4] £m**	**Total £m**
Short-term investments[1]	**–**	**–**	**–**	**12.0**	**12.0**	**37.8**	**–**	**–**	**61.8**
Derivative assets[2]	**–**	**–**	**–**	**7.6**	**0.5**	**11.7**	**5.5**	**6.6**	**31.9**
At 29 March 2014	**–**	**–**	**–**	**19.6**	**12.5**	**49.5**	**5.5**	**6.6**	**93.7**

1. Includes cash on deposit and money market funds held by Marks & Spencer Scottish Limited Partnership, Marks & 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.
4. Exposure to a counterparty approved as an exception to treasury policy.

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 £128m (last year £114m), other receivables £136m (last year £60m), cash and cash equivalents £182m (last year £193m) and derivatives £54m (last year £108m).

(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 £1,600m (last year £1,342m) with a weighted average maturity date of six months (last year seven months).

Gains and losses in equity on forward foreign exchange contracts as at 29 March 2014 will be released to the income statement at various dates over the following 16 months (last year 15 months) from the balance sheet date.

21 Financial instruments continued

Financial risk management continued

(c) Foreign currency risk continued

The Group uses a combination of foreign currency debt and derivatives to hedge balance sheet translation exposures. As at the balance sheet date €162m of currency debt (last year €200m of derivatives) and HK$698m (last year HK$484m) 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 £417m (last year £307m).

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) is set out below:

			2014			2013
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**1,226.5**	**708.6**	**1,935.1**	1,929.9	318.1	2,248.0
Euro	**6.6**	**139.3**	**145.9**	3.9	6.7	10.6
Other	**–**	**22.8**	**22.8**	–	27.4	27.4
	1,233.1	**870.7**	**2,103.8**	1,933.8	352.2	2,286.0

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 5.3% (last year 5.6%) and the weighted average time for which the rate is fixed is nine years (last year eight 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 £1,233.1m (last year £1,933.8m) representing the public bond issues and finance leases, amounting to 59% (last year 85%) of the Group's gross borrowings.

The effective interest rates at the balance sheet date were as follows:

	2014 %	2013 %
Committed and uncommitted borrowings	**1.0**	1.2
Medium-term notes	**5.3**	5.6
Finance leases	**4.3**	4.3

Notes to the financial statements continued

21 Financial instruments continued

Derivative financial instruments

		2014		2013	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current					
Forward foreign exchange contracts	– cash flow hedges	**12.1**	**(50.9)**	34.0	(12.8)
	– held for trading	**1.6**	**(0.6)**	3.6	(0.9)
	– net investment hedges	**–**	**–**	4.9	–
		13.7	**(51.5)**	42.5	(13.7)
Non-current					
Cross currency swaps	– cash flow hedges	**–**	**(62.3)**	3.2	(12.4)
Forward foreign exchange contracts	– cash flow hedges	**0.3**	**(0.9)**	3.8	(0.7)
Interest rate swaps	– fair value hedge	**17.9**	**(12.2)**	32.4	–
Embedded derivative (see note 5)		**22.4**	**–**	25.9	–
		40.6	**(75.4)**	65.3	(13.1)

The Group holds a number of interest rate swaps to redesignate 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 £0.5m (last year £nil) as the gain on the hedged item was £33.7m (last year £8.0m loss) and the loss on the hedging instrument was £34.2m (last year £8.0m gain). The Group also holds a number of cross currency swaps to redesignate 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 retranslation of the hedged foreign currency net assets leaving a net equity impact of zero.

The table excludes financial instruments that expose the Group to interest rate and foreign exchange risk where such risk is fully hedged with another financial instrument. Also excluded are trade receivables and payables as these are either sterling denominated or the foreign exchange risk is hedged.

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 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)
At 29 March 2014				
Impact on income statement: gain/(loss)	**4.2**	**(16.1)**	**–**	**–**
Impact on other comprehensive income: (loss)/gain	**(17.9)**	**11.6**	**124.9**	**(141.3)**

21 Financial instruments continued

Offsetting of financial assets and liabilities

The following tables set out the financial assets and financial liabilities which are subject to offsetting, enforceable master netting arrangements and similar agreements. Amounts which are set off against financial assets and liabilities in the Group's statement of financial position are set out below. For trade and other receivables and trade and other payables, amounts not offset in the statement of financial position but which could be offset under certain circumstances are also set out.

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 29 March 2014					
Trade and other receivables	**33.5**	**(24.2)**	**9.3**	**(9.3)**	**–**
Derivative financial assets	**31.9**	**–**	**31.9**	**(31.9)**	**–**
Cash and cash equivalents	**45.2**	**(39.0)**	**6.2**	**–**	**6.2**
	110.6	**(63.2)**	**47.4**	**(41.2)**	**6.2**
Trade and other payables	**(233.2)**	**24.2**	**(209.0)**	**9.3**	**(199.7)**
Derivative financial liabilities	**(126.9)**	**–**	**(126.9)**	**31.9**	**(95.0)**
Bank loans and overdrafts	**(45.1)**	**39.0**	**(6.1)**	**–**	**(6.1)**
	(405.2)	**63.2**	**(342.0)**	**41.2**	**(300.8)**

	Gross financial assets/ (liabilities) £m	Gross financial (liabilities)/ assets set off £m	Net financial assets/ (liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 30 March 2013					
Trade and other receivables	12.6	(5.0)	7.6	(7.6)	–
Derivative financial assets	81.8	–	81.8	(26.8)	55.0
Cash and cash equivalents	54.5	(17.9)	36.6	–	36.6
	148.9	(22.9)	126.0	(34.4)	91.6
Trade and other payables	(152.3)	5.0	(147.3)	7.6	(139.7)
Derivative financial liabilities	(26.8)	–	(26.8)	26.8	–
Bank loans and overdrafts	(49.9)	17.9	(32.0)	–	(32.0)
	(229.0)	22.9	(206.1)	34.4	(171.7)

The gross financial assets and liabilities set off in the balance sheet primarily relate to cash pooling arrangements with banks. Amounts which do not meet the criteria for offsetting on the Statement of Financial Position but could be settled net in certain circumstances principally relate to derivative transactions under International Swaps and Derivatives Association (ISDA) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Fair Value Hierachy

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 and liabilities;
- Level 2: not traded in an active market but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency. The Group's level 2 financial instruments include OTC derivatives; 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.

Notes to the financial statements continued

21 Financial instruments continued

Fair value hierarchy continued

At the end of the reporting period, the Group held the following financial instruments at fair value:

	2014				2013			
	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	**–**	**1.6**	**–**	**1.6**	–	3.6	–	3.6
Derivatives used for hedging	**–**	**30.3**	**–**	**30.3**	–	78.3	–	78.3
Embedded derivatives (see note 5)	**–**	**–**	**22.4**	**22.4**	–		25.9	25.9
Available-for-sale financial assets								
– Equity securities	**–**	**–**	**3.0**	**3.0**	–	–	3.0	3.0
Short-term investments	**–**	**12.4**	**–**	**12.4**	–	10.7	–	10.7
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
– Trading derivatives	**–**	**(0.6)**	**–**	**(0.6)**	–	(0.9)	–	(0.9)
Derivatives used for hedging	**–**	**(126.3)**	**–**	**(126.3)**	–	(25.9)	–	(25.9)

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers out of Level 3 fair value measurements in the current reporting period.

The following table represents the changes in Level 3 instruments:

	2014 £m	2013 £m
	£m	£m
Opening balance	**28.9**	23.1
Gains and losses recognised in the income statement	**(3.5)**	5.8
Closing balance	**25.4**	28.9

The gains recognised in the income statement relate to the valuation of the embedded derivative in a lease contract. The fair value movement of the embedded derivative of £3.5m (last year £5.8m) is 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 £1,605.9m (last year £2,076.5m); the fair value of this debt was £1,780.3m (last year £2,196.6m) which has been calculated using quoted market prices. The carrying value of the Partnership liability to the Marks & Spencer UK Pension scheme is £568.7m (last year £622.6m) and the fair value of this liability is £555.8m (last year £606.0m).

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 nine years (last year eight 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

	2014 £m	2013 £m
At start of year	**35.2**	32.4
Provided in the year	**71.8**	13.9
Released in the year	**(4.3)**	(1.3)
Utilised during the year	**(25.6)**	(9.8)
Exchange differences	**(0.9)**	–
At end of year	**76.2**	35.2
Analysis of total provisions:		
Current	**44.8**	19.2
Non-current	**31.4**	16.0
Total provisions	**76.2**	35.2

The provisions primarily comprise of one-off costs related to the strategic restructure in the UK in 2008/09 (including onerous leases), costs in relation to the current restructure of the logistics distribution network, costs relating to the restructure in Ireland (including the closure of four stores, redundancy and other employee related costs) and onerous leases within China and Czech Group.

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 10 years.

23 Deferred tax

Deferred tax is provided under the balance sheet liability method using a tax rate of 20% (last year 23%) 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 assets/(liabilities)

	Fixed assets temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences (restated)[1] £m	Other short-term temporary differences £m	Total UK deferred tax (restated)[1] £m	Overseas deferred tax £m	Total (restated)[1] £m
At 1 April 2012	(58.2)	(100.6)	(38.9)	6.5	(191.2)	(14.9)	(206.1)
Credited/(charged) to the income statement	5.7	10.0	(2.6)	0.7	13.8	1.3	15.1
Credited/(charged) to equity/other comprehensive income	–	–	(55.1)	(0.7)	(55.8)	6.2	(49.6)
At 30 March 2013	(52.5)	(90.6)	(96.6)	6.5	(233.2)	(7.4)	(240.6)
At 31 March 2013	**(52.5)**	**(90.6)**	**(96.6)**	**6.5**	**(233.2)**	**(7.4)**	**(240.6)**
Credited/(charged) to the income statement	**3.2**	**(9.3)**	**(0.8)**	**(12.5)**	**(19.4)**	**(1.9)**	**(21.3)**
Credited/(charged) to equity/other comprehensive income	**–**	**–**	**0.1**	**20.9**	**21.0**	**(1.7)**	**19.3**
At 29 March 2014	**(49.3)**	**(99.9)**	**(97.3)**	**14.9**	**(231.6)**	**(11.0)**	**(242.6)**

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

Other short-term temporary differences relate mainly to employee share options and financial instruments.

The deferred tax liability on land and buildings temporary differences is reduced by the benefit of capital losses with a tax value of £46.5m (last year £62.0m). Due to uncertainty over their future use, no benefit has been recognised in respect of unexpired trading losses carried forward in overseas jurisdictions with a tax value of £38.7m (last year £30.8m).

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.

Notes to the financial statements continued

24 Ordinary share capital

	2014 Shares	2014 £m	2013 Shares	2013 £m
Issued and fully paid ordinary shares of 25p each				
At start of year	**1,613,888,192**	**403.5**	1,605,507,102	401.4
Shares issued on exercise of share options	**18,359,782**	**4.6**	8,381,090	2.1
At end of year	**1,632,247,974**	**408.1**	1,613,888,192	403.5

Issue of new shares
18,359,782 (last year 8,381,090) ordinary shares having a nominal value of £4.6m (last year £2.1m) were allotted during the year under the terms of the Company's schemes which are described in note 13. The aggregate consideration received was £45.0m (last year £22.9m).

25 Contingencies and commitments
A. Capital commitments

	2014 £m	2013 £m
Commitments in respect of properties in the course of construction	**86.1**	9.5

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.

	2014 £m	2013 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	**296.9**	276.9
Later than one year and not later than five years	**1,034.1**	1,064.5
Later than five years and not later than ten years	**1,020.1**	1,053.7
Later than ten years and not later than 15 years	**672.0**	695.1
Later than 15 years and not later than 20 years	**358.3**	366.8
Later than 20 years and not later than 25 years	**236.3**	247.0
Later than 25 years	**1,064.1**	1,143.0
Total	**4,681.8**	4,847.0

The total future sublease payments to be received are £44.9m (last year £50.6m).

26 Analysis of cash flows given in the statement of cash flows

Cash flows from operating activities

	2014 £m	2013 (restated)[1] £m
Profit on ordinary activities after taxation	**506.0**	444.8
Income tax expense	**74.4**	102.4
Finance costs	**139.1**	218.2
Finance income	**(25.0)**	(12.4)
Operating profit	**694.5**	753.0
Increase in inventories	**(86.4)**	(91.2)
(Increase)/decrease in receivables	**(45.8)**	9.5
Increase in payables	**107.7**	77.0
Non-underlying operating cash outflows	**(68.2)**	(21.4)
Depreciation, amortisation and write-offs	**504.7**	467.4
Share-based payments	**21.3**	25.8
Pensions costs charged against operating profit	**92.4**	71.4
Cash contributions to pension schemes	**(92.1)**	(70.9)
Non-underlying operating profit items	**47.4**	25.6
Cash generated from operations	**1,175.5**	1,246.2

1. Restatement relates to the adoption of the revised IAS 19 'Employee Benefits' (see note 1).

Non-underlying operating cash flows relate to the utilisation of the provisions for restructuring of the logistics network and in Ireland, strategic programme costs and the reduction in M&S Bank income for the impact of the financial product mis-selling provision.

27 Analysis of net debt

A. Reconciliation of movement in net debt

	At 31 March 2013 £m	Cash flow £m	Exchange and other non-cash movements £m	At 29 March 2014 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 20)	(152.1)	(295.7)	2.1	**(445.7)**
Less: amounts treated as financing (see below)	119.7	321.7	(2.1)	**439.3**
	(32.4)	26.0	–	**(6.4)**
Cash and cash equivalents (see note 18)	193.1	(9.4)	(1.6)	**182.1**
Net cash per statement of cash flows	160.7	16.6	(1.6)	**175.7**
Current financial assets (see note 16)	16.9	1.8	(1.0)	**17.7**
Debt financing				
Bank loans and overdrafts treated as financing (see above)	(119.7)	(321.7)	2.1	**(439.3)**
Medium-term notes (see note 20)	(2,008.8)	400.0	(1.0)	**(1,609.8)**
Finance lease liabilities (see note 20)	(57.4)	7.3	(2.1)	**(52.2)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(606.0)	50.3	–	**(555.7)**
Debt financing	(2,791.9)	135.9	(1.0)	**(2,657.0)**
Net debt	(2,614.3)	154.3	(3.6)	**(2,463.6)**

Notes to the financial statements continued

27 Analysis of net debt continued

B. Reconciliation of net debt to statement of financial position

	2014 £m	2013 £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 18)	**182.1**	193.1
Current financial assets (see note 16)	**17.7**	16.9
Bank loans and overdrafts (see note 20)	**(445.7)**	(152.1)
Medium-term notes – net of hedging derivatives	**(1,649.0)**	(2,040.2)
Finance lease liabilities (see note 20)	**(52.2)**	(57.4)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12 and 21)	**(568.7)**	(622.6)
	(2,515.8)	(2,662.3)
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK pension scheme	**52.2**	48.0
Total net debt	**(2,463.6)**	(2,614.3)

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.

On 28 March 2014 the Group acquired the remaining 49% shareholding of Marks and Spencer Czech Republic a.s. for £6.0m taking its share in the Czech Group (Czech Republic, Estonia, Latvia, Lithuania, Slovakia and Poland) to 100%. This transaction has been accounted for through equity as the Group already controlled these entities and consolidated them as subsidiaries.

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 2014. 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 29 March 2014, £24.0m (last year £21.7m) 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 £4.6m) of rental charges were incurred. There was no outstanding balance at March 2014.

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

	2014 £m	2013 £m
Salaries and short-term benefits	**7.3**	9.2
Share-based payments	**3.2**	2.6
Total	**10.5**	11.8

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 Martha Lane Fox's partner. Martha is a non-executive director of the Group. These transactions amounted to £1.8m during the year (last year £2.4m) with an outstanding trade payable of £0.4m at 29 March 2014 (last year £0.2m).

Supplier transactions occurred last 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 from 1 April 2012 to 1 October 2012, the date of Kate Bostock's resignation. The company was a supplier prior to Kate's employment by the Group.

Company statement of financial position

	Notes	As at 29 March 2014 £m	As at 30 March 2013 £m
Assets			
Non-current assets			
Investments in subsidiary undertakings	C5	**9,217.4**	9,207.8
Total assets		**9,217.4**	9,207.8
Liabilities			
Current liabilities			
Amounts owed to subsidiary undertakings		**2,471.8**	2,516.8
Total liabilities		**2,471.8**	2,516.8
Net assets		**6,745.6**	6,691.0
Equity			
Ordinary share capital		**408.1**	403.5
Share premium account		**355.5**	315.1
Capital redemption reserve		**2,202.6**	2,202.6
Merger reserve		**1,397.3**	1,397.3
Retained earnings		**2,382.1**	2,372.5
Total equity		**6,745.6**	6,691.0

The financial statements were approved by the Board and authorised for issue on 22 May 2014. The financial statements also comprise the notes on pages 124 and 125.

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 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 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
At 31 March 2013	**403.5**	**315.1**	**2,202.6**	**1,397.3**	**2,372.5**	**6,691.0**
Profit for the year	**–**	**–**	**–**	**–**	**273.6**	**273.6**
Dividends	**–**	**–**	**–**	**–**	**(273.6)**	**(273.6)**
Capital contribution for share-based payments	**–**	**–**	**–**	**–**	**9.6**	**9.6**
Shares issued on exercise of employee share options	**4.6**	**40.4**	**–**	**–**	**–**	**45.0**
At 29 March 2014	**408.1**	**355.5**	**2,202.6**	**1,397.3**	**2,382.1**	**6,745.6**

Company statement of cash flows

	52 weeks ended 29 March 2014 £m	52 weeks ended 30 March 2013 £m
Cash flows from investing activities		
Dividends received	**273.6**	273.3
Net cash generated from investing activities	**273.6**	273.3
Cash flows from financing activities		
Shares issued on exercise of employee share options	**45.0**	22.9
Repayment of intercompany loan	**(45.0)**	(24.9)
Equity dividends paid	**(273.6)**	(271.3)
Net cash used in financing activities	**(273.6)**	(273.3)
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 or statement of comprehensive income.

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 £986,000 (last year £968,000). 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

	2014 per share	2013 per share	**2014 £m**	2013 £m
Dividends on equity ordinary shares				
Paid final dividend	**10.8p**	10.8p	**173.6**	172.3
Paid interim dividend	**6.2p**	6.2p	**100.0**	99.0
	17.0p	17.0p	**273.6**	271.3

In addition, the directors have proposed a final dividend in respect of the year ended 29 March 2014 of 10.8p per share amounting to a dividend of £176.0m. It will be paid on 11 July 2014 to shareholders who are on the Register of Members on 30 May 2014. 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

	2014 £m	2013 £m
Beginning of year	**9,207.8**	9,194.6
Additional investment in subsidiary undertakings relating to share-based payments	**9.6**	13.2
End of year	**9,217.4**	9,207.8

Shares in subsidiary undertakings represent the Company's investment in Marks and Spencer plc. The directors believe that the carrying value of the investments is supported by their underlying net assets.

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	–	100%
Marks and Spencer (Ireland) Limited	Retailing	Republic of Ireland	–	100%
Marks and Spencer (Asia Pacific) Limited	Retailing	Hong Kong	–	100%
Marks and Spencer Simply Foods Limited	Retailing	Great Britain	–	100%
Marks and Spencer Marinopoulos Greece SA	Retailing	Greece	–	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 £273.6m (last year £273.3m) and decreased its loan from Marks and Spencer plc by £45.0m (last year £24.9m). The outstanding balance was £2,471.8m (last year £2,516.8m) and is non-interest bearing. There were no other related party transactions.

Group financial record

	2014 52 weeks £m	2013 52 weeks (restated)[3] £m	2012 52 weeks[4] £m	2011 52 weeks[4] £m	2010 53 weeks[4] £m
Income statement					
Revenue[1]					
UK	**9,155.7**	8,951.4	8,868.2	8,733.0	8,567.9
International	**1,154.0**	1,075.4	1,066.1	1,007.3	968.7
	10,309.7	10,026.8	9,934.3	9,740.3	9,536.6
Operating profit[1]					
UK	**600.3**	632.8	658.0	679.0	701.1
International	**94.2**	120.2	88.5	157.9	150.9
Total operating profit	**694.5**	753.0	746.5	836.9	852.0
Net interest payable	**(125.8)**	(212.9)	(114.1)	(93.9)	(160.1)
Pension finance income	**11.7**	7.1	25.6	37.6	10.8
Profit on ordinary activities before taxation – continuing operations	**580.4**	547.2	658.0	780.6	702.7
Analysed between:					
Underlying profit before tax	**622.9**	648.1	705.9	714.3	694.6
Adjustments to reported profit	**(42.5)**	(100.9)	(47.9)	66.3	8.1
Income tax expense	**(74.4)**	(102.4)	(168.4)	(182.0)	(179.7)
Profit after taxation	**506.0**	444.8	489.6	598.6	523.0

		2014 52 weeks	2013 52 weeks (restated)[3]	2012 52 weeks[4]	2011 52 weeks[4]	2010 53 weeks[4]
Basic earnings per share[1]	Basic earnings/Weighted average ordinary shares in issue	**32.5p**	28.3p	32.5p	38.8p	33.5p
Underlying basic earnings per share[1]	Underlying basic earnings/ Weighted average ordinary shares in issue	**32.2p**	31.9p	34.9p	34.8p	33.0p
Dividend per share declared in respect of the year		**17.0p**	17.0p	17.0p	17.0p	15.0p
Dividend cover	Underlying earnings per share/ Dividend per share	**1.9x**	1.9x	2.1x	2.0x	2.2x
Retail fixed charge cover	Operating profit before depreciation and operating lease charges/Fixed charges	**3.4x**	3.5x	3.9x	4.0x	4.0x
Statement of financial position						
Net assets (£m)		**2,706.7**	2,519.5	2,778.8	2,677.4	2,185.9
Net debt[2] (£m)		**2,463.6**	2,614.3	1,857.1	1,900.9	2,068.4
Capital expenditure (£m)		**710.0**	821.3	737.5	491.5	397.1
Stores and space						
UK stores		**798**	766	731	703	690
UK selling space (m sq ft)		**16.6**	16.4	16	15.6	15.4
International stores		**455**	418	387	361	320
International selling space (m sq ft)		**5.8**	5.4	4.7	4.2	3.6
Staffing (full-time equivalent)						
UK		**54,678**	51,835	51,938	49,922	48,722
International		**6,498**	5,683	5,116	4,753	4,272

1. Based on continuing operations.
2. Excludes accrued interest.
3. Restatement relates to the adoption of the revised IAS 19 ‘Employee Benefits’ (see note 1).
4. For the years ended pre-2011/12, no restatement for the revised IAS 19 ‘Employee Benefits’ have been made.

Shareholder information

Analysis of share register

Ordinary shares

As at 29 March 2014 the Company had 188,165 registered holders of ordinary shares. Their shareholdings are analysed below. It should be noted that many of our private investors hold their shares through nominee companies, therefore the percentage of private holders is much higher (we estimate approximately 30%) than that indicated.

Range of shareholding	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of issued share capital
1 – 500	96,552	51.31%	18,598,083	1.14%
501 – 1,000	36,794	19.55%	27,521,684	1.69%
1,001 – 2,000	28,260	15.02%	40,638,578	2.49%
2,001 – 5,000	18,800	9.99%	57,777,083	3.54%
5,001 – 10,000	4,885	2.60%	33,760,540	2.07%
10,001 – 100,000	2,276	1.21%	51,454,296	3.15%
100,001 – 1,000,000	425	0.23%	148,959,099	9.12%
1,000,001 – HIGHEST	173	0.09%	1,253,538,611	76.80%
Total	188,165	100%	1,632,247,974	100%

Category of shareholder	Number of shareholders	% of total shareholders	Number of ordinary shares	% of issued share capital
Private	180,473	95.91%	269,424,555	16.51%
Institutional and Corporate	7,692	4.09%	1,362,823,419	83.49%
Total	188,165	100%	1,632,247,974	100%

2014/15 financial calendar and key dates

28 May 2014	Ex-dividend date – Final dividend
30 May 2014	Record date to be eligible for the final dividend
8 July 2014*	Results – Quarter 1 Interim Management Statement†
8 July 2014	Annual General Meeting (11am)
11 July 2014	Final dividend payment date for the year to 29 March 2014
5 November 2014*	Results – Half Year†
13 November 2014*	Ex-dividend date – Interim dividend
14 November 2014*	Record date to be eligible for the interim dividend
January 2015*	Results – Quarter 3 Interim Management Statement†
9 January 2015*	Interim dividend payment date

† Those who have registered for electronic communication or news alerts at marksandspencer.com/thecompany will receive notification by email when this is available.
* provisional dates.

Managing your shares online

Shareholders can manage their holdings online by registering with Shareview, the internet based platform provided by Equiniti. Registration is a straightforward process and allows shareholders to:

– sign up for electronic shareholder communication;
– receive trading updates by email;
– view all of their shareholdings in one place;
– update their records following a change of address;
– have dividends paid into their bank account; and
– vote in advance of company general meetings.

M&S encourages shareholders to sign up for electronic communication as the reduction in printing costs and paper usage makes a valuable contribution to our Plan A commitments It is also beneficial to shareholders, who can be notified by email whenever we release trading updates to the London Stock Exchange, which are not mailed to shareholders.

To find out more information about the services offered by Shareview and to register, please visit shareview.co.uk.

Annual General Meeting 2014

This year's AGM will be held at Wembley Stadium, Wembley, London HA9 0WS on Tuesday 8 July 2014. The meeting will start at 11am and registration will be available from 9.30am.

Dividends

Paid in January and July each year. We encourage shareholders to have their dividends paid directly into their bank account to ensure efficient payment and that cleared funds are received on the payment date. Shareholders who receive their dividend payments in this way receive a single, consolidated tax voucher annually in January, covering both dividend payments made during the tax year. We are able to send separate tax vouchers if preferred.

Shareholders can change their preferred dividend payment method online at shareview.co.uk or by contacting 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.

Changes of address
To avoid missing important correspondence relating to your shareholding, it is extremely important that you inform Equiniti 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. Holdings of more than 1,500 shares will require an instruction in writing, quoting your full name, 11 digit shareholder reference number (if known) and both your previous and new addresses

Corporate website
The M&S corporate website provides a wealth of useful information for shareholders and should be your first port of call for general queries relating to the Company and your shares.

Shareholders are also encouraged to sign up to receive news alerts by email. These include all of the financial news releases from throughout the year that are not sent to shareholders by post. 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.

Investor Relations iPad App
The M&S Investor Relations App provides investors with the latest press releases, regulatory news, and much of the information available on our corporate website in a user friendly app optimised for use via iPad. The app also offers online access to the Company's share price information, corporate news, financial reports, and corporate video presentations. It is available to download free of charge from the Apple App Store.

ShareGift
If you have a very small shareholding that 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.

Capital Gains Tax
For the purpose of Capital Gains Tax, the price of an ordinary share on 31 March 1982 was 153.5p, which when adjusted for the 1 for 1 scrip issue in 1984, gives a figure of 76.75p. Following the capital reorganisation in March 2002, HMRC has confirmed the base cost for CGT purposes was 372.35p (81.43%) for an ordinary share and 68.75p (18.75%) for a B share.

American Depositary Receipts (ADRs)
The Company has a Level 1 ADR program. This enables US investors to purchase Marks & Spencer American Depository Shares (ADS) in US dollars 'over the counter'. The Company has chosen to have the ADRs quoted on the OTC market's highest tier, International PremierQX.

For information on OTCQX go to **otcqx.com**
For Deutsche Bank, email: **DB@amstock.com**
ADR website: **adr.db.com**
Toll free callers within the US: 1 866 249 2593
For those calling outside the US: +1 (718) 921 8137

Shareholder queries
The Company's share register is maintained by our Registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly using one of the methods listed below. For more general queries, shareholders should consult the 'Investors' section of our corporate website.

Useful contacts
M&S Registered Office
Waterside House, 35 North Wharf Road,
London W2 1NW
Telephone +44 (0)20 7935 4422
Registered in England and Wales (no. 4256886)

Registrar
Equiniti Limited,
Aspect House, Spencer Road, Lancing,
West Sussex BN99 6DA
United Kingdom
Telephone 0845 609 0810
and outside the UK +44 (0) 121 415 7071
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
An interactive version of our Annual Report is available online at **marksandspencer.com/annualreport2014**.

Additionally, both the Annual Report and Strategic Report are available for download in pdf format at **marksandspencer.com/thecompany**.

Alternatively, call 0800 591 697

Please note, students are advised to source information from our website.

General queries
Customer queries: 0845 302 1234
Shareholder queries: 0845 609 0810
Alternatively, email us at **chairman@marks-and-spencer.com**.

Shareholder security
An increasing number of shareholders have been contacting us to report unsolicited and suspicious phone calls received from purported 'brokers' who offer to buy their shares at a price far in excess of their market value. It is unlikely that firms authorised by the Financial Conduct Authority (FCA) will contact you with offers like this. As such, we believe these calls are part of a scam, commonly referred to as a 'boiler room'. The callers obtain your details from publicly available sources of information, including the Company's share register, and can be 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 our corporate website. An overview of current common scams is available on the Action Fraud website **actionfraud.police.uk**.

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