Making every moment special

M&S

EST. 1884

ANNUAL REPORT
& FINANCIAL
STATEMENTS 2017

FINANCIAL OVERVIEW

GROUP REVENUE

£10.6bn +2.2%

GROUP PROFIT BEFORE TAX

£176.4m -63.5%

GROUP PROFIT BEFORE TAX AND ADJUSTED ITEMS

£613.8m -10.3%

INTERIM AND FINAL DIVIDEND

6.8p + 11.9p = 18.7p Level

BASIC EARNINGS PER SHARE

7.2p -70.7%

ADJUSTED EARNINGS PER SHARE

30.4p -12.6%

Read more on p08-09

ABOUT OUR REPORTING

NAVIGATING THE REPORT

Throughout this document a series of icons demonstrate how we've integrated information about our business model with details of our strategy and risk.

- A PLAN A
- R RISK
- STRATEGY – REMUNERATION LINK
- READ MORE

REPORTING PERIOD

This year we are reporting on the 52-weeks to 1st April 2017 compared to last year when we reported on a 53-week basis, as every six years an additional week is included to ensure that the year-end date stays in line with the end of March. To provide a meaningful comparison with this year, all financial movements are reported on a 52-week basis, and excluding the 53rd week last year, unless otherwise noted.

Details of the 53-week comparisons can be found in the Financial Review p26.

ALTERNATIVE PERFORMANCE MEASURES

This report provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. New for this year, we have included a glossary on page 133 which provides a comprehensive list of the APMs that we use, including an explanation of how they are calculated, why we use them and how they can be reconciled to a statutory measure where relevant.

PLAN A

Plan A is integrated throughout this report, demonstrating how it is embedded in every part of our business. This makes it easier for shareholders to see how our sustainability programme is creating value in our different divisions. More detailed information is available in our online 2017 Plan A Report at **marksandspencer.com/plana2017**.

ONLINE INFORMATION

We have comprehensive financial and company information on our website. To register for notifications, go to **marksandspencer.com/investors** and follow the **Electronic Shareholder Communication link.**

INTRODUCTION

M&S IS ONE OF THE UK'S LEADING RETAILERS.

WE ARE COMMITTED TO MAKING EVERY MOMENT SPECIAL FOR OUR CUSTOMERS, THROUGH OUR HIGH QUALITY, OWN-BRAND FOOD, CLOTHING AND HOME PRODUCTS WE OFFER IN OUR 1,433 STORES WORLDWIDE AND ONLINE.

WHAT'S IN THIS REPORT?

***Directors' Report**
Shareholder information forms part of the Directors' Report.

OUR BUSINESS

AT A GLANCE

FOOD

Making every food moment special is the aim of our Food business, which accounts for 60% of our UK turnover. Through the innovation, quality and choice that we offer, customers know they can come to us for every occasion, whether it is healthy cooking ideas, delicious meals from around the world or convenient food on-the-go. We sell food through 942 UK stores, including 253 owned and 383 franchise Simply Food stores.

Read more on p23

FOOD REVENUE

£5.6bn +4.2%

NUMBER OF NEW LINES

1,600
24% of range

NUMBER OF CUSTOMERS

20.5m
+0.5m

CLOTHING & HOME

We sell **beautifully designed, high quality, own-brand clothing and homeware** through 343 full-line stores, Outlets and our M&S.com website. Our Womenswear, Menswear, Kidswear, Lingerie, Beauty and Home products account for 40% of our UK turnover. With our focus on contemporary style and wardrobe essentials, we are the UK's biggest clothing retailer by value. We are also the market leader in Womenswear, Lingerie and Menswear.

Read more on p23

CLOTHING & HOME REVENUE

£3.8bn -2.8%

FULL-PRICE SALES

+2.7%

NUMBER OF CUSTOMERS

24.6m
-0.1m

INTERNATIONAL

We **export the best of M&S** Clothing & Home and Food around the world, with stores across Europe, Asia and the Middle East. We also have a growing international online business. Following a strategic review of our International business, we are focusing on our established joint venture and franchise partnerships and operating fewer wholly-owned markets.

Read more on p24

INTERNATIONAL REVENUE

£1.2bn +10.7%

INTERNATIONAL STORES

454 -14 net new stores

TERRITORIES

55 -3

A

PLAN A

In January 2007, we launched Plan A to address the key environmental, social and ethical challenges facing M&S. After ten years and two further updates, Plan A continues to lead the sustainable business agenda. This year we are launching a new set of commitments which have been developed to transition Plan A into **a new way of working and engaging with our customers**.

marksandspencer.com/plana2017

TOTAL PLAN A 2020 COMMITMENTS

107

COMMITMENTS ACHIEVED	COMMITMENTS NOT ACHIEVED
64	6

COMMITMENTS ON PLAN	COMMITMENTS BEHIND PLAN
25	11

COMMITMENTS CANCELLED

1

OUR BUSINESS
OUR PERFORMANCE
GOVERNANCE
FINANCIAL STATEMENTS

OUR BUSINESS

CHAIRMAN'S STATEMENT

This year Steve has set out clear and decisive plans. I will leave an **M&S that is well equipped for the digital age and totally focused on its customers**. This more relevant M&S is underpinned by effective succession planning, good governance and active shareholder engagement which have been my focus during my time as Chairman.

ROBERT SWANNELL CHAIRMAN

INTERIM	FINAL	TOTAL DIVIDEND FOR 2016/17
6.8p	11.9p	18.7p
PAID ON 13 JANUARY 2017	TO BE PAID ON 14 JULY 2017	

OVERVIEW

This is my last Annual Report as Chairman after more than six years at M&S. It has been an extraordinary honour to serve this company.

Since Steve Rowe became Chief Executive, he has set out clear plans to accelerate the pace of change across M&S. By simplifying the way we do things and by focusing on the customer, we have laid solid foundations for growth. We repositioned our Clothing & Home business, made important decisions about the future shape of our UK and International store estates, and put in place fairer pay and benefits for our employees.

It has been a year of great change outside M&S as well. Last summer's vote to leave the European Union has caused inevitable uncertainty. Nobody yet knows what the long-term effect of Brexit will be. Like many businesses we have been impacted by the depreciation of sterling, but it is our job to seize the opportunities ahead and prepare for all eventualities.

We have made some hard decisions. Some have led to significant adjustments to our profits this year and also, in the case of repositioning our Clothing & Home business, to some short-term reduction in our adjusted profits. However, these changes needed to be made for the long-term health of the business. Decisive action and strong execution have never been more important to compete in a fast-changing retail environment. These actions allow us to embrace the future from a position of strength, well equipped for a digital age and with a sustainable business model.

PERFORMANCE

I believe our food is, without exaggeration, among the best in the world. Once again, we delivered a good performance in a tough market. Sales grew as customers responded to the quality of our food and the convenience of our stores. We are very pleased with the overall performance of the Simply Food stores opened during the year. The return on capital from the format remains compelling. With product innovation remaining the backbone of our Food business and a strong, but measured, store opening programme, we have a clear path to growth.

We repositioned our Clothing & Home business for sustainable growth by ending a damaging cycle of promotions and discounts. We also refocused our ranges on stylish, wearable, great-quality essentials. By implementing a sensible, competitive pricing architecture for our customers, we have seen encouraging improvements in full-price sales. As expected, fewer promotions and less discounting resulted in lower sales. There is much work still to do but we are beginning to see signs of recovery. Steve made it clear a year ago that this repositioning would have a short-term negative impact on profits but would set us up for sustainable performance and a stronger business in the long term. A year on, we are even clearer that this was the right thing to do.

Our International business had a challenging year. However, we announced a clear strategy to focus on our strong franchise partnerships and our established joint ventures, and operate in fewer owned markets, by exiting ten owned, loss-making markets and 53 stores.

Overall, adjusted profit before tax was £613.8m, down 10.3% on last year. However, due to charges of £437.4m, Group profits fell to £176.4m. The main elements of the charges relate to the cost of implementing the new pay and pensions arrangements, and the cost of the International store closures. I was Chairman when about half of these 53 stores opened and so must accept my full share of the responsibility for this disappointing result. However, consumer behaviour has changed in the intervening years. We had already significantly scaled back our ambitions in owned markets before we announced these closure plans, and just as there was a rationale for opening the stores then, there is one for closing them now. It is essential that we adapt to our customers' changing needs and recognise the current realities of the markets in which we operate, despite the short-term cost.

Having the right stores in the right places is also why we are reshaping our UK store portfolio, as we focus on having less, more inspiring Clothing & Home space and growing our Food space. At the end of this five-year programme we will have increased our space overall and employed more people. Our stores will be more relevant to the changing needs and habits of our customers in a digital world.

HIGHLIGHTS OF THIS YEAR'S GOVERNANCE REPORT

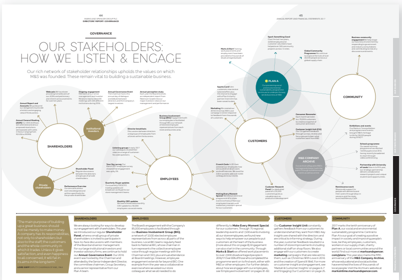
The Governance report provides:

→ A clear and honest review of the year;
→ A clear map illustrating our stakeholder considerations and engagement;
→ The outcome of our independent Board Evaluation;
→ Greater disclosure around Board discussions and associated actions; and
→ Our approach to risk and risk appetite.

As a Board we regularly discuss:

→ Strategy and performance
→ Culture and behaviour
→ Succession planning
→ Ecommerce
→ Cyber and IT
→ The M&S brand
→ International
→ Supply chain
→ Risk
→ Property
→ Plan A

Read more on p34-83



INTRODUCTION

ARCHIE NORMAN
CHAIRMAN DESIGNATE

In May, we announced that Archie Norman will join M&S as Chairman on 1 September 2017. Archie has significant retail experience and a long-term track record of value creation in several major British companies. He has led transformations of major businesses in the UK and abroad, and served on the boards of several others, most recently as Chairman of ITV plc.

A VALUES AND PLAN A

Our values of Inspiration, Innovation, Integrity and In Touch run through everything we do at M&S. This is a business that tries to do the right thing and this is demonstrated in many ways, from our Long Service Awards to helping disadvantaged people into work, to the charity support delivered through Plan A.

This isn't new; it is part of what has defined us for over a century. In 1964 Lord Sieff, our then Deputy Chairman, spoke about our values. *"The main purpose of building up a great business should not be merely to make money,"* Lord Sieff said. *"A company has its responsibilities, not only to shareholders but also to the staff, the customers and the whole community in which it trades. Unless it gives satisfaction, and even happiness to all concerned, it will fail in its aims in the long term."* His comments are as pertinent as ever and this philosophy continues to guide the way we do business at M&S.

This year marks the tenth anniversary of Plan A. I am extremely proud of the work we have done. From becoming a zero waste to landfill business and sourcing raw materials more responsibly, to our ambitious programmes to support workers throughout our global supply chain, we have sought to lead the way on truly sustainable change. We recently relaunched Plan A and the latest version is aimed at being even more relevant to customers and the communities in which we trade.

BOARD CHANGES

Since I became Chairman in 2011 I have consistently focused on succession planning as one of the most important tasks for the Board. Last year, after a rigorous process, we appointed Steve as Chief Executive, the first internal appointee for many years. Steve's strategy is firmly in place so this is now the right time for a new Chairman to take over as plans for growth in the longer term are developed.

After an equally rigorous process led by Vindi Banga and our Nomination Committee, I will be replaced as Chairman by Archie Norman in September. Archie brings a breadth and depth of relevant experience to M&S and an extensive track record in retail and brands. I am delighted with Archie's appointment and I wish him great success in this role.

SHAREHOLDER RETURNS AND DIVIDENDS

We know how important our dividend is to shareholders. Our policy remains progressive, with dividends broadly covered twice by earnings. Despite a reduction of 10.3% in our adjusted profits, we have decided to maintain the total dividend per share for the year at the same level as last year with the proposed payment of a final dividend of 11.9p per share; this dividend remains well covered on a cash basis. Given the cash costs associated with our strategic change and the uncertain market conditions, we consider it is prudent not to make additional returns of cash to shareholders under our enhanced return programme.

A STRONGER COMPANY

I will leave M&S a stronger company. We are now set up to compete, with a modern distribution and logistics backbone and excellent digital, design and sourcing capabilities. I have been committed to strong governance throughout my tenure and your Board today has a balanced breadth of talent, both among the executives and the non-executives.

We have worked to increase engagement with our shareholders and employees. Over the last six years, we have engaged our major institutional shareholders in depth in our business to ensure as much transparency as possible. Now, through our Shareholder Panel, we are engaging with our private shareholders in an unprecedented way. In addition, through channels such as my regular meetings with the Chair of our Business Involvement Groups (BIG), M&S's network of elected employees, and his attendance at our Board, we are engaging with our people as never before.

Having focused on these three pillars – governance, succession and engagement – I believe M&S is now better prepared for the further changes ahead.

There is no business I would have been prouder to chair than M&S. I will miss being part of it, its values and the place it holds in customers' hearts. My colleagues at M&S are the most dedicated I have ever worked with and I never fail to be impressed by their commitment to the business. They want M&S to succeed and they know what 'doing the right thing' means.

The last six years have seen profound changes in retail and at M&S; technology has transformed the way that people shop. Under Steve, change will continue unabated – it must. To meet the challenges ahead, M&S must be bold, ambitious and decisive. It must think big and execute effectively. And, as Lord Sieff said, it must also give satisfaction and happiness to its customers, its employees and its communities.

Finally, I would like to thank our customers, our employees and our shareholders for their support. It has been an unforgettable privilege to be Chairman of M&S and I wish the business every success in the years ahead.

ROBERT SWANNELL CHAIRMAN

OUR BUSINESS

MARKET & CUSTOMER INSIGHTS

Our actions are driven by listening to our customers and analysing the market to build a rich and robust picture of our customers' shopping habits and outlooks. **Everything we do as a company is filtered through the lens of what we know about our customers** and every decision starts with them.

UNDERSTANDING OUR CUSTOMERS

Our Customer Insight Unit (CIU) gathers feedback through a number of different channels, including store exit surveys, online surveys and reviews, till surveys, the Customer Contact Centre and focus groups, to build a comprehensive picture of what our customers want from M&S. This year, we carried out over 700,000 customer interviews, either in person or through online surveys. Within CIU, we have created a centralised data analytics team to ensure we have a single accurate view of our customers. Through anonymised data analysis, we can better understand how our customers are shopping with us by examining purchasing behaviours and patterns both in our stores and online. By understanding how our customers choose to spend their money and time at M&S, we can ensure we are always working to deliver the products and shopping experience they want.

Our Consumer Barometer gives us a regular snapshot of how consumers are feeling about their household finances and the economy in general. Every month we talk to 70,000 M&S customers across our key customer groups, as well as those who don't shop with us regularly, to take the nation's pulse.

We overlay this insight with external market data, such as weather patterns, travel time to our stores, local footfall data and the competitor environment, to build a solid understanding of our customers and our position in the overall retail landscape.

But gathering this crucial data is only half of the equation – it's how we use it to put our customers centre stage that's important. By carefully analysing all the information that we have, we can ensure we are in touch with consumer attitudes and lifestyles. The data allows us to identify patterns and groups of customers. By understanding these groups in detail, we can build our strategies from the customer upwards rather than from the boardroom downwards.

In short, the information allows us to do a better job for our most important stakeholders – the people who shop with us – so that we are more relevant, more often. By understanding and knowing our customers through careful and detailed data analysis, we can put customers right at the heart of everything we do.

WHAT CUSTOMERS ARE TELLING US

After holding up reasonably well over Christmas, consumer confidence in general dipped in the early months of 2017. People started to feel a little less certain about the wider economic outlook due to concern around issues such as rising inflation, the falling pound and uncertainty as a result of the UK's decision to leave the European Union.

When asked about their future spending intentions, all consumers – rather than M&S customers in particular – said they were likely to trim back their discretionary spending in the months ahead due to these economic concerns. They also said they were more likely than before to put their money into experiences and events, such as trips to the cinema, gym membership or meals out, rather than into buying consumer goods on the high street. Net optimism, a measure of how positive people are feeling, increased by 5% over the year. In terms of their biggest concerns in the immediate future, people cited rising food prices, worries about the Brexit negotiations and geopolitical uncertainty following the American presidential election last November.

But despite all this, consumer confidence is still relatively high compared with the period between 2008 and 2013, when it suffered a prolonged slump due to the credit crisis.

More of our food shoppers say that they would recommend us to family and friends. Our Net Promoter Score (NPS), which measures customers' willingness to recommend M&S, in Food is up four points. In Clothing & Home, while overall NPS was broadly level, we saw an improvement in ratings from our most frequent customers and in our larger stores, so we know customers are noticing the difference. Although our Clothing & Home business is still recovering, customers can see we are doing the right things. Customers find M&S.com easy to navigate and customer satisfaction has significantly improved over the last year.

HOW WE USE OUR INSIGHTS

The information we gather gives us a crucial insight into the context in which we're trading. Our insights mean nothing unless we act on them. We share the information with all our business units and use the results to help us inform our business decisions.

From product development and design, to the content we put on our website, to our online delivery proposition – they are all guided by what our customers tell us.

This year there were many examples of how we took insights from our CIU and used them to improve our customers' experience, for example:

- → We changed the layout of our clothing departments because of customer feedback that our stores were sometimes confusing to shop in. Until this year, we organised Womenswear by sub-brand, such as per una or Limited Edition. But this led to a fragmented shopping experience and product duplication where sub-brands had similar garments. Our stores now have clear product departments, with the key products for the season brought together at the front of the store, leading to a more intuitive shopping experience.
- → We have used our insights to increase levels of personalisation for our 5.6m Sparks members who now receive tailored offers based on their interests and shopping habits. We invite them to special Sparks events and experiences, such as wine tastings or fashion shows, depending on

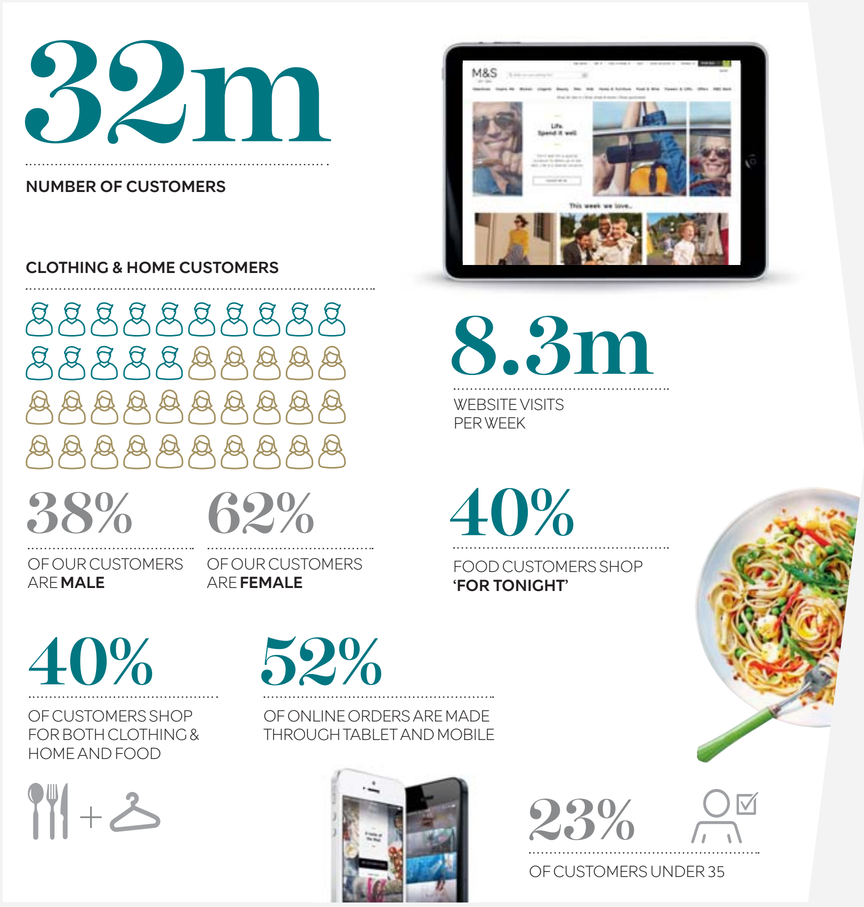
how many Sparks they have and what we know they are passionate about. We are also being more targeted in our email communications by sending customers updates specifically related to their local store and area so they only get the information that is most relevant to them.

- We used quantitative data from 7,000 customers to guide our investment in improving service in our stores. This research told us customers wanted to see more Customer Assistants in our stores. We responded by putting over 3,000 more colleagues into the departments where our customers told us they value service most, including Fitting Rooms, Bra Fit, Men's Suits and Footwear.
- We showcase our clothing collections to the fashion press twice a year – Autumn/Winter in May and Spring/Summer in November – so our customers get to see some of what's coming next season. This year, we responded to feedback that customers increasingly want to buy into new season trends as soon as they see them with 'See Now Buy Now' capsule collections, enabling customers to shop key pieces from the new season straight away.
- The Clothing & Home research panel we use for product development has a customer interaction every five seconds through our dedicated panel of around 231,000 customers. With this we gain invaluable feedback on new products during design development, so we can increase the buys on customer favourites and eliminate products that score less well at the concept stage, ensuring we are shaping collections that most resonate with our customers.
- For this year's Christmas campaign, we listened to thousands of customers to understand what they want to see from M&S at Christmas. The feedback we gathered said they wanted us to own Christmas in the traditional sense, but in a way that was surprising and different. So we created the Christmas with Love campaign starring the often unsung hero of Christmas, Mrs Claus, who epitomised the huge efforts our customers put in to making the festive season special.

This is just the beginning. The next few years present exciting opportunities. For example, since the launch of Sparks in 2015, nearly 1.5m people have downloaded our M&S app. This combination of technology and loyalty is powerful. It brings us closer to our customers and will allow us to further enrich our proposition. It will allow us to increase customer engagement. And it will allow us to drive frequency of purchase across channels and categories.

Smart use of data can boost sales and therefore create value for everyone: our customers, our employees and, ultimately, our shareholders.

M&S TODAY



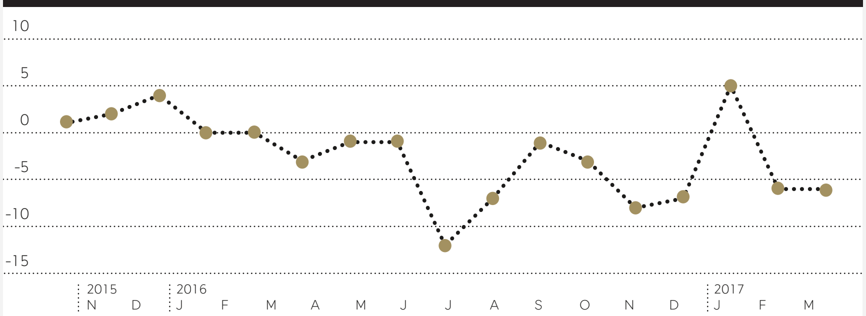
UK FOOD MARKETPLACE

We face stiff competition across the UK food sector with rising inflation, recovery among the main four supermarkets and the continued growth of the discounters. Food retailers and suppliers also face cost headwinds due to rising raw material prices and the depreciation of sterling. However, through listening to our customers and monitoring the market, we keep on top of changing shopping habits. Consumers remain as savvy as ever and relish innovation. They are also doing smaller 'convenience' shops. These trends play to our strengths.

UK CLOTHING MARKETPLACE

The market remains highly competitive, with retailers facing cost pressures due to increasing commodity prices and the impact of the fall in sterling. At the same time, households are managing their finances carefully due to fears of inflation and political uncertainty. Customers still love treating themselves, but consumer confidence dipped in the early months of 2017. Spending on clothing is also coming under pressure as consumers spend more on experiences and retailers are vying with cinemas and restaurants for spend. However, we believe we can attract consumers by focusing on offering high quality, stylish products that are competitively priced.

CONSUMER CONFIDENCE INDEX



Source: GfK

OUR BUSINESS

CHIEF EXECUTIVE'S STRATEGIC UPDATE

By listening to our customers and simplifying how we do things, I believe we have the right strategy in place to make **M&S a relevant, profitable and truly sustainable retailer**.

STEVE ROWE CHIEF EXECUTIVE

OVERVIEW

A year ago, I started in my role as Chief Executive by posing a series of questions that I hoped would help unlock the future of M&S, giving us a platform from which to first recover and then to grow. 2016/17 has been a year of change as we started to answer these questions, which I address below.

The steps we are taking are making a difference and we are making progress. However, as we said when we set out our plan, it has resulted in some short-term pain. Some of the action needed has been costly and profits are down. Clothing & Home sales were down year-on-year as we reduced promotions and markdown activity. We expected this and we still believe we are doing the right thing for the future of our business. We have seen encouraging signs from the increase in full-price Clothing & Home sales and in the sales growth during the key Christmas trading period. And in Food, we continued to grow ahead of the market with new stores outperforming expectations.

The business has adapted well as we start to build a sustainable foundation for the future. We have laid a lot of the groundwork for our recovery; however, we are not there yet. I want to see consistent delivery over time and I want to see us move out of recovery. Even as our performance improves, we can't stand still. While we are still focused on recovering our business and we have a lot more to do, I am also starting to look to future growth opportunities, some of which I outline at the end of this update.

OUR CUSTOMERS

We asked how we could put customers at the heart of everything we do. Due to the changes we've made, we are now a more data-driven organisation where decisions are made based on what we know about our customers, not what we think we know. We conduct more customer listening groups than ever before; all trading meetings now begin with insight into our customers; and, as we celebrate ten years of leading the social and environmental agenda, we have repurposed Plan A to make it more customer-focused.

Our customer-focused changes are most keenly felt in our stores. We invested in customer service by recruiting additional colleagues into the areas we know are most important to our customers. We also rolled out our Making Every Moment Special in-store service initiative.

Read more about **Making Every Moment Special** below

Our new Spend It Well marketing campaign – like our Mrs Claus Christmas campaign before it – focuses squarely on our customers' lifestyles. It taps into people's emotional connection with M&S and is aimed at driving a reappraisal of our brand. Life is short so we should Spend It Well. The campaign encourages customers to make the most of what's relevant for them today.

CLOTHING & HOME

We asked how we could recover and grow our Clothing & Home business. The answer lay in making a series of common sense, customer-focused changes to the way we do things. In a tough market, I am pleased with the progress we are making.

MAKING EVERY MOMENT SPECIAL

Our Making Every Moment Special employee engagement programme has been transformational for our customers and our people alike. Through it, we believe we've taken customer service to new levels. Last summer, we gave over 70,000 store colleagues interactive training with the objective of putting customers at the heart of what we do. We encouraged them to make real-time decisions based on individual customers' needs and we removed non-customer-facing tasks from their daily routines, giving them more time to spend with customers. The response from colleagues has been phenomenal and as positive as anything I've known in my 28 years at M&S. Our 'Customer at the Heart' site on Yammer, our internal social media network, contains thousands of examples of great service by our colleagues. Throughout our 133-year history, we have learnt that better service leads to better sales. Making Every Moment Special shows this principle in action. It has become our mantra across the business. By empowering our people to make customer-focused decisions, our sales floors are buzzing with a renewed sense of purpose.

OUR STRATEGY

CUSTOMERS AND BRAND
PUTTING THE CUSTOMER AT THE HEART OF EVERYTHING WE DO

RECOVER AND GROW
CLOTHING & HOME

STYLE | AUTHORITY
QUALITY

Focus on product
Style, wardrobe essentials and fit

Drive execution
Price, availability and service

CONTINUE TO GROW
FOOD

NEWNESS | CONVENIENCE
QUALITY

Focus on product
Innovation, health and capability

Drive execution
Price, availability and convenience

UK STORE ESTATE
- → Grow Food space
- → c.60 fewer, more inspirational Clothing & Home stores
- → Rebalance c.50 stores to growth areas

INTERNATIONAL
- → Focus on partnership model and online
- → Drive execution – price, availability and service

ORGANISATION & COSTS
- → Create a lean, effective Head Office
- → Continue to develop cost culture

We made shopping simpler for customers by reducing the number of times we launch new lines from 14 to nine times a year. We cut the number of garment options by 10%. We are phasing out the Indigo, Collezione and North Coast sub-brands. These measures enabled us to improve availability across our ranges. Previously, we acted too much like a 'fast fashion' company, prioritising frequency over quality and taking too many cues from catwalk fashions. So we improved our fits, fabrics and finishes, we increased availability and we refocused on delivering contemporary wearable style and wardrobe essentials. Our ranges are now more relevant to what customers want from M&S.

We started offering better value than ever before by reducing prices on 2,400 Clothing & Home lines. We simultaneously reduced our promotional activity. This put an end to confusing pricing which meant our products were either too expensive or too heavily discounted. Not only have these changes given clarity to customers, but they made our sales more profitable and boosted our full-price market share.

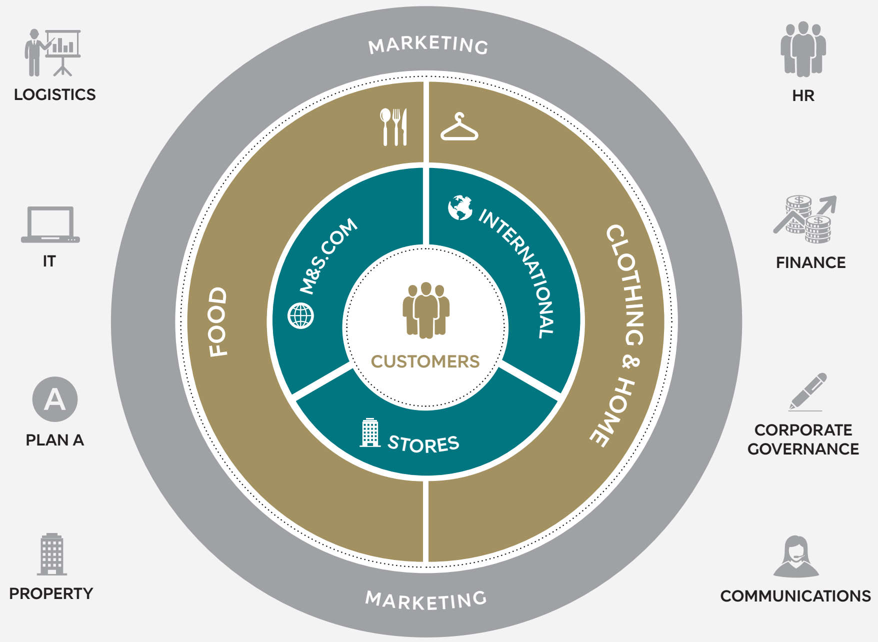
We also made our stores far easier to shop in by merchandising more of our clothes by product category rather than by brand. This change in emphasis reflected the changes we made last year to the way our teams design and buy products. Our shops are now simpler and more intuitive. They are based around customers' needs.

We are still in the recovery phase of our plan and getting it right is absolutely crucial to our success. In May this year, we announced a new role to lead this work. Jill McDonald will join as Managing Director, Clothing, Home & Beauty and will have overall profit and loss accountability for all aspects of our Clothing & Home business, from design and sourcing through to supply chain and logistics. The scope of this role highlights the importance we are placing on continuing to recover and starting to grow Clothing & Home. We are making encouraging progress and I believe we are on the right path to growth.

CHIEF EXECUTIVE'S STRATEGIC UPDATE CONTINUED

OUR OPERATING MODEL

Simplicity and accountability are key to running an agile and successful business. We are therefore changing our operating model to give us two clear profit and loss accountabilities – one for our Clothing & Home business unit and one for our Food business unit. Both sides of the business are now responsible for their own end-to-end profit & loss. As part of the change, M&S.com has moved from being a separate business unit to being a sales channel, along with Stores and International. All three channels now feed into our two business units, with our customers at the centre. Underpinning these changes is the ongoing drive for simplicity in the way we do things.



FOOD

Convenient. Special. Different. These are the reasons why customers love our food. These are also the reasons why our Food business is on a clear path to sustainable growth. We know that selling quality food from convenient locations is a winning formula: sales from the 30 owned Simply Food stores we opened this year are ahead of plan. We'll continue to grow our Food business by opening 250 further Food stores by 2020. We're succeeding in our aim of making every food moment special. Customers love our high levels of innovation – we renew around a quarter of our range every year – and they love the high quality of our products. We won't accept second-rate ingredients. In a world where you get what you pay for, it shows. This year we extended Collection, our top tier range for customers who want something extra special. And customers know they can trust us on health. It is their number one concern when it comes to buying food, so we launched 200 new products aimed at helping our customers to eat well, and extended our Made Without, Balanced for You and Eat Well ranges. The grocery market continues to be very competitive but we will continue to set ourselves apart with superior quality, innovation and convenient food in convenient locations. As we grow our Food store presence, our food will be even more accessible to more customers.

OUR PEOPLE

By thinking, working and behaving with a truly customer-centric mindset, I believe our people are integral to our success.

Last year I asked what our right cost base, shape and structure was, and how this would affect our people. In April 2017, we finalised the pay and pensions changes that I outlined last year and we now reward our people in a fairer, more consistent way. I am immensely proud that we now have pay and benefit parity across the business. Following detailed consultation with our National Business Involvement Group of elected employee representatives, we now offer one of the best reward packages in UK retail.

In November, we outlined further plans to simplify the business and lower our costs. This resulted in a reduction of roles at our Head Office and the decision to reduce our central London office space as we move to more efficient ways of working. Some of these decisions had a direct impact on a number of our employees. But I believe our people recognise that we made them for the right reasons and that they were necessary for our sustainable growth.

I would like to thank all our people for their dedication and professionalism in a year of significant but necessary change.

STORE ESTATE AND INTERNATIONAL

Our customers' shopping habits are changing, so I asked whether our UK and International store estate is the right shape for the future. It is not. Customers' behaviour is evolving, and the pace of change is accelerating. Rather than doing one big food shop a week, there is a growing trend of customers picking up food for now or for tonight. Look at how people use technology. They'll browse or buy online and collect in store. Or they'll buy on their smartphone for home delivery. Sales on M&S.com now account for 17% of Clothing & Home sales.

At the same time, customers want to shop in modern stores that offer a great experience. Our store portfolio needs to reflect how people live their lives today.

So we announced plans to rebalance our UK space to meet changing customer needs. The transformation will enable us to grow Clothing & Home sales through fewer, better stores. Over five years, we will change the use of around 25% of our space, with more of it being deployed to Food and other growth areas. Clothing & Home space will reduce by around 10%. Approximately 30 full-line stores will close, and 45 will be converted to Simply Food.

To be clear, this is neither a withdrawal nor a retrenchment. Due to our ambitious Food expansion we will have more stores in the future, not fewer. But our estate will be the shape which meets how our customers want to shop at M&S.

Our International operations have also changed. While our franchise business with our knowledgeable partners is profitable, our owned estate is not. This is unsustainable, so we are focusing on our joint venture and franchise partnerships and our growing online business, and exiting ten of our loss-making owned markets. The programme is on track. We have now closed all ten of our stores in China and completed employee consultations in the remaining markets. We remain a significant player on the global stage with a store or online presence in 55 markets. I believe in an international business for M&S and remain committed to it.

These changes show that we're willing to adapt to ensure we're in the best shape for our customers.

COSTS

Cost control remains a top priority. Our operating costs were up 3.8% this year as we put more colleagues into stores and absorbed the costs of our Food store opening programme. We funded some of this through our Crunch Costs initiative, which challenged all of our people to tackle unnecessary costs, and from simplifying our Head Office structure. Better buying initiatives, such as direct design and food packaging optimisation, mitigated the currency headwinds we saw on both sides of the business. The steps we've taken to transform M&S led to charges of £437.4m this year. These were largely driven by charges for International store closures and for the changes to pay and pensions.

While profits were significantly down, I continue to believe in good cash management, a robust balance sheet and a progressive dividend policy. We know how important our dividend is to shareholders big and small.

⊕ Read more in the **Financial Review** on p26-29

OUR CHAIRMAN

Our Chairman, Robert Swannell ,has announced that he will step down in September. On behalf of all of us at M&S, I wish Robert well. He has overseen significant change at M&S. Our infrastructure now provides a strong platform for growth, and Robert has been instrumental in driving shareholder engagement, good governance and succession planning. He has also been a tremendous support to me personally over the last year. On behalf of the whole business, I would like to welcome Robert's successor, Archie Norman.

LOOKING AHEAD

My priorities for the year ahead are to continue to recover and grow Clothing & Home and to grow our Food business. I will also establish the foundations for new paths to growth. In the UK, these will focus on areas of market share opportunity in Kidswear, Footwear, Home and Beauty. Internationally, we will explore new territories with our franchise partners. And I will continue to develop talent within the organisation.

It continues to be a privilege to lead this fantastic company. Our job as a retailer is quite simple: we must offer customers great products at the right price in physical or digital environments that they enjoy, with great service. If we do this, they will come back to us for more.

But to do this year-in, year-out, we must constantly adapt. We must adapt both to stay in tune with our customers' needs and in the way we sell our products. Shopping habits won't stop changing, so neither must we.

As Chief Executive, I want to make M&S agile and flexible enough to change with our customers. I want to see the end of big transformation programmes followed by years of standing still, followed by yet more transformation. Remaining relevant should be a continuous process.

By simplifying how we do things and really listening to our customers, we've already become more agile this year. By rationalising our Clothing ranges and reshaping our store portfolio, we've started to put this agility into practice. In doing this, we've built a solid foundation for growth. We must never stop adapting our business for our customers.

Nothing makes me prouder of the work our teams do than hearing from our customers and what they love about M&S. Those customers are the reason we're here. They will remain at the heart of everything we do.

STEVE ROWE CHIEF EXECUTIVE

OPERATING COMMITTEE

Steve Rowe
Chief Executive

Helen Weir
Chief Finance Officer

Patrick Bousquet-Chavanne
Executive Director, Customer, Marketing & M&S.com

Andy Adcock
Food Director

Sacha Berendji
Retail Director

Paul Friston
International Director

Dominic Fry
Communications & Investor Relations Director

David Guise
Human Resources Director

Jo Jenkins
Womenswear, Lingerie & Beauty Director

Amanda Mellor
Group Secretary and Head of Corporate Governance

OUR BUSINESS

CREATING SUSTAINABLE VALUE

OUR BUSINESS MODEL

We create long-term value through the effective use of our resources and relationships. We manage these in line with our core values of Inspiration, Innovation, Integrity and In Touch.

These values influence how we behave and they run through everything we do – they make the M&S difference: **making every moment special** through the products and services we offer our customers in the UK and internationally.

OUR RESOURCES & RELATIONSHIPS

FINANCIAL

Generating returns for our stakeholders through effective management of our financial resources

OUR PRODUCTS & CHANNELS

Maintaining our channels and supply chain infrastructure to meet customer demand

OUR INTELLECTUAL CAPITAL

Strengthening our brand through creation and protection of our intellectual property

THE M&S DIFFERENCE

1 LISTEN & RESPOND

Activities: Our customers are at the heart of everything we do, and our strategy today is more customer-focused than ever before. By understanding what drives their behaviour, both within M&S and externally, we can ensure we work to deliver the products and experiences that customers want. This year we strengthened the data and analytics team within our Customer Insight Unit (CIU), which gathers and interprets customer data, as well as a wealth of external sources. The CIU then ensures that its insights are used across our business units. Through the CIU, we can understand each customer's needs and relationship with M&S – wherever and however they shop.

Outcome: By listening to customers and responding to what they tell us, we can create products and shopping experiences that are relevant to them.

2 STRATEGY & PLANNING

Activities: Efficient implementation of our strategy is key. This year, changes to our organisational structure saw us streamline our senior management team and bring each channel's merchandising operations together, increasing efficiency. We also revised our operating model, which will give our two business units – Clothing & Home and Food – clear profit and loss accountability. Through our Smarter Working programme, we created a new technology hub which will roll-out significant technology improvements to increase our digital savviness across the business.

Outcome: Successfully implementing our strategy allows us to improve our financial performance through increased profits and strengthened cash flow.

3 DEVELOP & DESIGN

Activities: By fostering talent and encouraging entrepreneurialism among our people, we can continue to develop high quality products for our customers. Our product developers are experts in their fields, whether they are food technologists or experienced tailors. Our food innovation sets us apart and with talent ranging from Michelin-trained chefs to Masters of Wine, our Food team is among the best in the business. We now design 68% of our clothing ranges in-house and buy our clothes by product category rather than sub-brand.

Outcome: The talent in our Food team underpins the innovation that our customers love. By developing and designing clothing in-house, we have reduced product proliferation, designed ranges characterised by a more consistent colour palette and refined our quality through improved fit, upgraded fabric and better finishes.

FIND OUT MORE

Read about how our business model creates value on p14-15

Read about how our business model works on p16-17

OUR RESOURCES & RELATIONSHIPS

OUR PEOPLE

Developing our employees and their knowledge

OUR STAKEHOLDERS

Building and nurturing relationships with our customers and suppliers, and in the communities in which we operate

NATURAL RESOURCES

Sourcing responsibly and using natural resources efficiently

4 SOURCE & BUY

Activities: A strong, ethical supply chain is crucial in creating sustainable value. We work with our suppliers to ensure continuous social and environmental improvement, whether it relates to sourcing cotton or fishing more sustainably. We are committed to being more transparent about our supply chains, and our interactive Supplier Map details all the clothing, home, beauty and food factories that supply M&S. All 3,000 of our suppliers must adhere to our Global Sourcing Principles, which cover working conditions and workers' rights. We comply with the Groceries Supply Code of Practice (GSCOP) and help build global approaches to ethical sourcing through organisations such as the Consumer Goods Forum.

Outcome: An effective sourcing strategy creates sustainable value by driving efficiencies and margin improvement, while using our scale to deliver great quality at every price point.

5 BRAND & SELL

Activities: We constantly evolve how we sell our products to suit customers' changing lifestyles. Customers today are increasingly looking for deeper engagement with brands; they want richer and more meaningful experiences. They want moments that matter. We therefore work across departments and channels to create great customer experiences. For example, our stores are now laid out in product areas, more aligned with M&S.com, and M&S.com is evolving from a purely transactional experience to a place of inspiration and personalisation. Our Spend It Well campaign reflects the unique feeling that our customers have about M&S and our high quality own-brand products. We're also making 'doing the right thing' synonymous with the M&S brand by committing to all our products having a Plan A story to tell by 2020.

Outcome: Our own brand creates value by distinguishing us from our competitors and our Plan A ambitions make sustainability accessible to all.

6 SERVE & ENGAGE

Activities: We build on our privileged position of trust among customers with high levels of service. This year our Making Every Moment Special employee engagement initiative saw 70,000 store colleagues receive training in giving better customer service and making the shopping experience effortless for customers. In understanding our customers better, we can become more relevant more often. We also serve and engage with our customers via our Sparks loyalty scheme. Through Sparks, they share their passions and preferences with us, so we can introduce new services, products and channels that we know will interest them. We also serve and engage with the communities in which we operate.

Outcome: Good service and engaging with our customers in a way that is relevant to them drives higher sales and customer loyalty. This creates long-term sustainable value across the business.

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OUR BUSINESS

CONNECTED VALUE

INPUTS

Our resources and relationships
Across our business, we depend upon key resources and relationships to create financial, non-financial and strategic value.

- FINANCIAL
- OUR PRODUCTS & CHANNELS
- OUR INTELLECTUAL CAPITAL
- OUR PEOPLE
- OUR STAKEHOLDERS
- NATURAL RESOURCES

CORE OBJECTIVES

Group financial objectives

- Grow Group revenue
- Increase earnings and returns
- Strong cash generation

See KPIs p18

Non-financial objectives

- Engage, serve and retain customers
- Foster a skilled, motivated and engaged team
- Source products with integrity
- Efficient and responsible operations

See KPIs p19

Strategic objectives

- Drive growth
- Reach customers
- Improve profitability

See KPIs p20-21

BUSINESS MODEL THE M&S DIFFERENCE

How our activities deliver financial value

Listen & Respond
We use comprehensive data to understand what customers want to buy and how they want to shop.

Strategy & Planning
Robust financial management ensures we are able to continue to invest in our business and deliver profitable growth for our shareholders.

Develop & Design
New ideas fuel future performance, which is why attracting and developing talent is central to the future of our business.

Source & Buy
We capitalise on the **strong, long-term relationships** we have with our suppliers to deliver efficiencies, improve margins and drive profitability without compromising on the quality of our products.

Brand & Sell
Our brand is at the heart of the M&S difference and we **create unique products** that drive financial value.

Serve & Engage
We build and maintain **customer loyalty** by prioritising customer service and linking it to our employee benefits.

How our activities deliver non-financial value

Listen & Respond
Our customers' **trust in the M&S brand** is a key point of difference. We retain this competitive advantage by doing things in the most responsible way – we do the work so our customers don't have to.

Strategy & Planning
We **improve efficiency and reduce waste** across the business through the effective use of our resource and sourcing systems.

Develop & Design
By **cultivating talent and encouraging diversity** we have an engaged and autonomous workforce empowered to put our customers first.

Source & Buy
We are leading the way on **sourcing products with integrity** to exceed customers' expectations on quality, safety and sustainable sourcing.

Brand & Sell
We have built our brand on **robust standards** of responsibly sourced products and services.

Serve & Engage
We bring our brand to life by **driving engagement and participation** in store, online and through community support and volunteering.

How our activities deliver strategic value

Listen & Respond
By analysing **what our customers want**, we ensure our growth plans are right for the future of M&S.

Strategy & Planning
Our UK store estate programme will drive sales growth by ensuring that we have an **estate that reflects how our customers want to shop.**

Develop & Design
By constantly **improving product quality and choice**, we drive growth by making M&S more relevant to our customers more often.

Source & Buy
Our progress towards a more **flexible and direct sourcing** operation is benefiting our Clothing & Home margins.

Brand & Sell
We sell our products through our **own branded channels**, empowering us with the ability to grow and develop them in the way that is right for our customers.

Serve & Engage
The rationale behind **every strategic decision starts with our customer** – we want a winning culture built around giving them great products and service.

We are committed to delivering sustainable value for stakeholders. Here, we summarise how our business model drives value creation, how the process is managed, and how we measure the value created.

RELATED RISK FACTORS	ACCOUNTABILITY	OUTPUTS	KEY OUTCOMES
Financial performance risks There are a number of risks related to how we deliver financial value: 1. Clothing & Home recovery 8. Margin 11. Profitable growth 12. Third party management See **Risk** p32-33	**Financial accountability** BOARD ↑ OPERATING COMMITTEE See **Governance** p34-84 See **Remuneration** p66-78	**Key financial measures** Group revenue Group profit before tax and adjusted items Adjusted earnings per share Dividend per share Return on capital employed Free cash flow (pre-shareholder returns) See **KPIs** p18	**Financial value created** Strong profits build strong cash position Returns to shareholders Taxes to government Increased investment opportunities Employee rewards
Non-financial performance risks There are a number of risks related to how we deliver non-financial value: 1. Clothing & Home recovery 2. Food safety and integrity 3. Corporate responsibility 4. Information security (including cyber) 6. Customer proposition & experience 7. Talent & succession 9. Brand See **Risk** p32-33	**Non-financial accountability** BOARD ↑ OPERATING COMMITTEE ADVISORY PLAN A COMMITTEE ↑ OPERATIONAL PLAN A COMMITTEE See **Plan A Report**	**Key non-financial measures** Total Food customers and average number of shops per customer Total Clothing & Home customers and average number of shops per customer Employee engagement score Percentage of products with a Plan A quality A Greenhouse gas emissions (tonnes) Greenhouse gas emissions (per sq ft) See **KPIs** p19	**Non-financial value created** Maintained and improved reputation with consumers Better trained and fully committed employees Stronger relationships with suppliers and communities Culture where innovation and agility thrive
Strategic performance risks There are a number of risks related to how we deliver strategic value: 1. Clothing & Home recovery 5. Technology 8. Margin 10. UK store estate 11. Profitable growth See **Risk** p32-33	**Strategic accountability** BOARD ↑ OPERATING COMMITTEE See **Governance** on p34-84 See **Remuneration** p66-78	**Key strategic measures** Food UK revenue Food gross margin Food like-for-like revenue growth UK space growth – Food Clothing & Home UK revenue Clothing & Home gross margin Clothing & Home UK like-for-like revenue growth International revenue International operating profit International space growth M&S.com sales M&S.com weekly site visits See **KPIs** p20-21	**Strategic value created** Growth in sales, product range and presence Supply chain efficiency Increased customer base with broadening appeal A more dynamic, flexible and agile business

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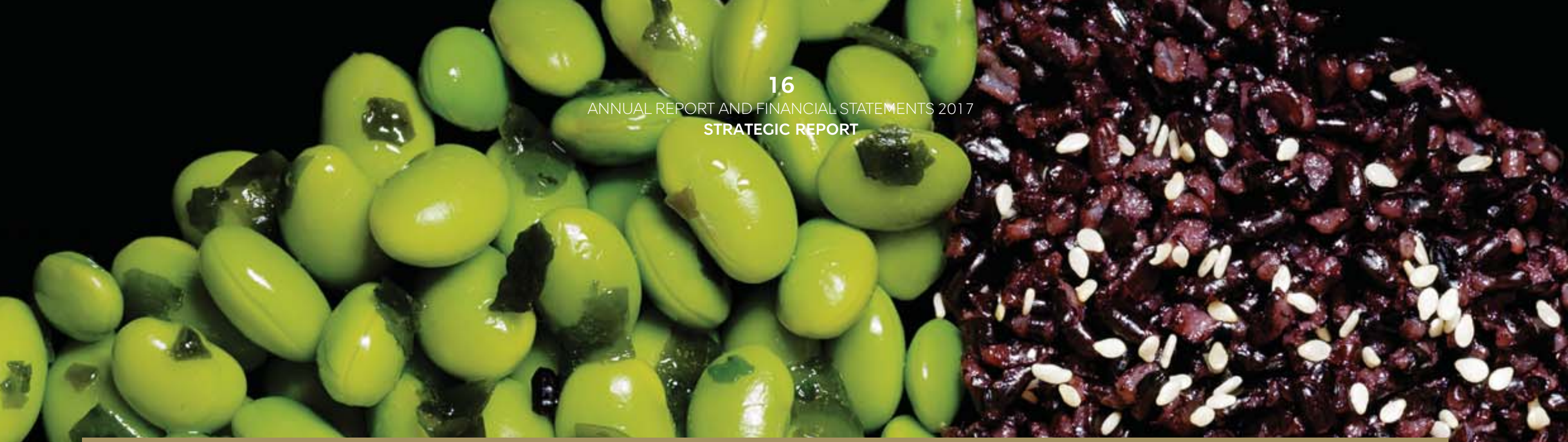


VALUE CREATION IN ACTION:

FOOD

1 LISTEN & RESPOND

We have seen a big change in how our customers shop for healthy food. As interests have shifted away from dieting, consumers are looking for ways to live healthier lifestyles every day and 81% of our customers tell us that health is their number one concern when buying food. We have also seen an increase in interest in wheat-free and plant-based eating, with vegan products being one of the biggest product requests we receive from our customers. This isn't just vegetarians and vegans – industry data suggests there is a growing number of people in the UK who identify as flexitarian in that they eat a largely plant-based diet with the occasional addition of meat and fish.

2 STRATEGY & PLANNING

With a 4.5% market share in the on-the-go lunchtime food market, we saw an opportunity for us to add to our Food on the Move range by bringing these trends to our customers. We also noticed there was a gap in the market for vegan-friendly lunchtime options. Our product development team went on a research trip to California, the home of healthy eating, to get ideas and inspiration. The big trend in San Francisco was for nourish bowls – colourful, wholesome salad bowls composed of vegetables, healthy grains and protein.

3 DEVELOP & DESIGN

Taking the customer insight, market trend data and inspiration from their trip, the team developed a new range of Nourish Bowls, featuring hearty, wholesome and fresh ingredients including edamame, black rice, avocado and sweet potato. They also developed our first ever vegan sandwiches and a range of vegetable wraps, made with beetroot, pumpkin or spinach, which all contain a portion of vegetables.

4 SOURCE & BUY

Our buying teams worked with our suppliers to source unusual grains and on-trend ingredients, such as buckwheat and cauliflower couscous, to bring something new and different to our customers. The Avocado & Egg Nourish Bowl is the first product on the UK high street to use sorghum, a protein and fibre rich wholegrain similar to pearl barley, while the Edamame & Black Rice and the Sweet Potato Nourish Bowls are our first vegan Food on the Move salads.

5 BRAND & SELL

We launched the new range in January, when consumers are typically looking for new ways to eat healthily. Our TV and print campaign, Adventures in Wonderfood, showcased products from the new ranges in a vibrant and exciting way, and this was supported by a coordinated campaign in our stores and editorial features on M&S.com. With its range of new flavours, we introduced the Nourish Bowls to customers as part of our lunch meal deal, and ran a special promotion for Sparks members with 10% off all Eat Well products, which included the new Food on the Move products.

6 SERVE & ENGAGE

The January edition of our Adventures in Food customer newspaper was all about the new ranges, with information on some of the more unusual ingredients, tips for ways to eat more healthily and recipe ideas for creating healthy meals at home. Communications went to all stores to educate colleagues on the new ranges and we hosted tasting events in 50 stores, giving customers the chance to try the Nourish Bowls and the new wraps and sandwiches.

VALUE CREATION IN ACTION:

CLOTHING & HOME

1 LISTEN & RESPOND

The pea coat is a consistently popular style and it has joined garments such as the trench and the camel coat as a timeless classic. It's also a style that is consistently popular with our customers – our Winter 15 collection featured a classic pea coat in two colours that was an instant hit and sold out early in the season. As the market leader in coats, we know this is a style we need to get right.

2 STRATEGY & PLANNING

We have set out a clear strategy to focus on style over fashion trends, and we know our customers want a consistent fit that flatters with good quality fabrics. We also know we are at our best when we focus on what we are famous for. In order to maximise the opportunity, our Womenswear team set out to create a collection of pea coats that used quality fabrics and styling to deliver a range suitable for our broad customer base.

3 DEVELOP & DESIGN

Following the changes to the structure of our Womenswear team, our products are now designed and bought by category rather than by brand. Our Outerwear design team created a collection which took that classic shape and updated it with different colours and interesting fabrics. Using our sub-brands, the team created distinct products for our customers. This gave the range a clear point of difference across M&S Collection and the sub-brands; from the coats' length, fabric and colour to styling details such as pockets, trims or collar shape. At £55, our M&S Collection opening price point pea coat gave customers a wardrobe classic at a great price, while the per una pea coat featured gold military buttons and a faux fur collar, as we know per una customers like a touch of elegance.

4 SOURCE & BUY

With confidence in the style, we bought our classic £55 pea coat in greater depth and more colours. For the more trend-led £99 version, we bought it in the two key colours of the season – navy and khaki. Leveraging our direct sourcing capabilities, we have consolidated some of our supply base, which has enabled us to work more closely with our key suppliers to source better quality fabrics and focus on styling and fit.

5 BRAND & SELL

The £99 M&S Collection wool-mix pea coat was the star of our Autumn/Winter marketing campaign, and was available to customers in all our stores. In line with our pricing strategy to offer consistently good prices, from our £55 opening price point pea coat to the £199 100% lambswool version, we offered great value and quality at every price point.

6 SERVE & ENGAGE

We know coats are one of the most important product categories for our customers when it comes to determining their view of M&S. Coats are quick to try on during a shopping trip and customers want to be able to easily compare the look and feel of each item. For Autumn/Winter 16, we made our coats easier to shop with a Coats destination area at the front of our stores. The area featured an event zone which showcased the key coats of the season, with unstructured coats in early autumn switching to the warmer pea coats as the weather got colder.

OUR PERFORMANCE

KEY PERFORMANCE INDICATORS

GROUP FINANCIAL OBJECTIVES

OBJECTIVE | **KPI** | **2016/17 PERFORMANCE** (52 weeks to 1 April 2017)[1]

Grow Group revenue

GROUP REVENUE

Total Group revenue, including retail sales for owned businesses and wholesale sales to franchise partners.

£10.6bn +2.2%

GROUP REVENUE £bn

Group revenues were up this year, mainly driven by the growth in our Food business as we opened new stores and an improvement in International revenues.

Increase earnings and returns

GROUP PROFIT BEFORE TAX (PBT) AND ADJUSTED ITEMS

Adjusted profit provides additional information on performance, adjusting for items considered to be significant in nature and/or value.

£613.8m -10.3%

GROUP PROFIT BEFORE TAX AND ADJUSTED ITEMS £m

Group PBT before adjusted items was down on last year largely due to the reduction in Clothing & Home gross profit and the increase in operating costs in the year.

RETURN ON CAPITAL EMPLOYED (ROCE)

Return on capital employed is a relative profit measure of the returns from net operating assets.

13.7%

RETURN ON CAPITAL EMPLOYED %

The decrease in ROCE primarily reflects the decrease in earnings before interest, tax and adjusted items.

ADJUSTED EARNINGS PER SHARE (EPS)

Adjusted earnings per share (EPS) is the profit before the impact of adjusted items divided by the weighted average number of ordinary shares in issue.

30.4p -12.6%

ADJUSTED EARNINGS PER SHARE p

Basic adjusted EPS decreased primarily due to the lower profit generated in the year. The weighted average number of shares in issue during the period was 1,623.1m (last year 1,635.9m).

DIVIDEND PER SHARE

Dividend per share declared in respect of the year.

18.7p Level

DIVIDEND PER SHARE p

The Board is recommending a final dividend of 11.9p per share, resulting in a total dividend of 18.7p.

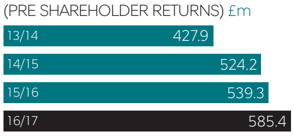
Strong cash generation

FREE CASH FLOW (PRE SHAREHOLDER RETURNS)

Free cash flow is the net cash generated by the business in the period before returns to shareholders excluding the impact of exchange rates on translation of foreign currency denominated cash balances.

£585.4m +8.5%

FREE CASH FLOW (PRE SHAREHOLDER RETURNS) £m



We delivered free cash flow up 8.5% on last year mainly due to the impact of reduced capital expenditure, which was partially offset by weaker business performance.

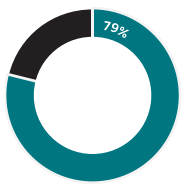
1. To provide a meaningful comparison with last year the revenue and profit KPIs are relative to the 52 week period to 26 March 2016.

KEY TO RESOURCES & RELATIONSHIPS AFFECTED

Financial | Our Products & Channels | Our Intellectual Capital | Our People | Our Stakeholders | Natural Resources | Linked to remuneration

Read more in the **glossary of alternative performance measures** on p133-134

NON-FINANCIAL OBJECTIVES

OBJECTIVE	KPI	2016/17 PERFORMANCE		
Engage, serve and retain our customers	**FOOD** Total number of UK Food customers per year and average number of shops per customer resulting in a purchase across all UK shopping channels.	TOTAL CUSTOMERS **20.5m** +0.4m	AVERAGE NUMBER OF SHOPS PER YEAR **22.5** Level	Our convenient, special and different food and our continued Simply Food store opening programme continue to draw customers in.
	CLOTHING & HOME Total number of UK Clothing & Home customers per year and average number of shops per customer resulting in a purchase across all UK shopping channels.	TOTAL CUSTOMERS **24.6m** -0.1m	AVERAGE NUMBER OF SHOPS PER YEAR **7.2** -5.3%	We are still in the recovery phase of our plan for Clothing & Home. We grew the number of customers shopping through M&S.com but this was more than offset by a decline in customers in our stores.
Foster a skilled, motivated and engaged team	**EMPLOYEE ENGAGEMENT** Engagement is a key driver of performance. Our Your Say survey looks at the key drivers of employee engagement such as pride in M&S and our products, feelings about M&S as an employer and the role of line managers.	**81%** +3%		The annual survey was completed by 80% of employees. Employee engagement results were positive and up on last year.
Source products with integrity	**PRODUCTS WITH A PLAN A QUALITY** (A) This is a quality or feature regarded as a characteristic or inherent part of a product which has a demonstrable positive or significantly lower environmental and/or social impact during its sourcing, production, supply, use and/or disposal.	**79%** +6% 		This represents an improvement of 6%. Our target is to have at least one Plan A quality in all M&S products by 2020.
Efficient and responsible operations	**GROSS GREENHOUSE GAS EMISSIONS** (A) Total gross CO_2e emissions resulting from M&S operated activities worldwide.	**526,000 CO_2e** -7%		We achieved a 7% reduction, mainly through lower carbon UK grid electricity. We also maintained our position of carbon neutrality (zero net emissions) by sourcing renewable energy and carbon offsets.
	GROSS GREENHOUSE GAS EMISSIONS PER 1,000 SQ FT (A) Total gross CO_2e emissions per 1,000 sq ft resulting from M&S operated activities worldwide.	**26 tCO_2e/ 1,000 sq ft** -10%		We achieved a 10% per sq ft improvement, mainly through lower carbon UK grid electricity. This has contributed towards the 7% reduction in total gross emissions.

KEY PERFORMANCE INDICATORS CONTINUED

STRATEGIC OBJECTIVES

OBJECTIVE	KPI	FOOD	CLOTHING & HOME
Drive growth	REVENUE	UK REVENUE **£5.6bn** +4.2% 2015/16: £5.4bn **Definition** UK Food sales including sales from our owned business and sales to our UK franchisees. **Performance** Growth was driven by new space. Our strategic objectives in Food remain consistent: superior quality, innovation and convenient food in convenient locations.	UK REVENUE **£3.8bn** -2.8% 2015/16: £3.9bn **Definition** UK Clothing & Home sales from our owned business. **Performance** As expected, Clothing & Home revenues declined as a result of our strategy to reduce promotions and markdown activity. However, we are encouraged by some early evidence that our strategy is working, with full-price sales up.
Reach customers	REVENUE GROWTH/ SPACE GROWTH/ ONLINE VISITS	UK LFL REVENUE GROWTH **-0.8%** **Definition** Sales growth from stores open at least 52 weeks and with no significant change in footage. **Performance** Sales were down slightly in a competitive market. UK FOOD SPACE GROWTH **+5.1%** **Definition** Increase in absolute Food selling space. **Performance** We increased the reach and convenience of our offer by opening 68 new Food stores, of which 38 were franchise. Franchise accounted for c.10% of new space growth.	UK LFL REVENUE GROWTH **-3.4%** **Definition** Sales growth from stores open at least 52 weeks and with no significant change in footage. **Performance** As expected, Clothing & Home revenues declined 3.4% as a result of our strategy to reduce promotions and markdown activity.
Improve profitability	GROSS MARGIN/ OPERATING PROFIT	UK GROSS MARGIN **32.5%** -25bps **Definition** Gross margin is the percentage of revenue retained after costs for producing and transporting goods. **Performance** Gross margin was below expectations, owing to input cost inflation and higher than anticipated waste in the second half of the year.	UK GROSS MARGIN **56.1%** +105bps **Definition** Gross margin is the percentage of revenue retained after costs for producing and transporting goods. **Performance** Gross margin was ahead of expectations. This was driven by the improvement in the buying margin which offset currency headwinds as we continued to deliver benefits from leveraging our direct sourcing capabilities. Gross margin also benefited from reduced discounting.

Read about our **Strategy** on p08-11 Read more on **Remuneration** on p54

Read about our **Resources and relationships** on p12-15

M&S.COM

TOTAL ONLINE REVENUE

£836.3m +5.6%

2015/16: £791.5m

Definition Total revenue from the Group's online platforms including International online sales.

Performance We grew sales, although these were adversely affected by the reduction in promotional activity. Full-price sales performance improved over the course of the year as we improved operational effectiveness as well as reduced discounting.

WEEKLY SITE VISITS[1]

8.3m +11%

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

We have continued to make improvements to our website over the year and now more customers than ever are shopping with us on M&S.com.

INTERNATIONAL

REVENUE

£1.2bn +10.7%

2015/16: £1.1bn

Definition Sales from the International business including sales from owned business and sales to franchisees.

Performance International revenues rose driven by currency translation benefits. On a constant currency basis, revenues declined by 0.1%.

SPACE GROWTH

-3.3%

Definition Year-on-year change in absolute selling space.

Performance We are re-establishing our International business as a more sustainable and profitable operation with our focus on a partnership model. While we remain committed to our joint ventures in India and Greece and our owned businesses in some key markets, we are exiting owned stores in ten loss-making markets. We have closed all our stores in China and we are on track for the further planned closures to be largely completed by the end of the first half of the year.

OPERATING PROFIT BEFORE ADJUSTED ITEMS

£64.4m +15.4%

Definition Adjusted operating profit provides additional information on performance adjusting for items that are considered to be significant in nature and/or value.

Performance The improvement was due to a reduction in losses in owned markets. This followed our decision to exit ten markets and the adjusted charges we took at the point of that decision. Profits from our franchise markets were down due to lower shipments to our partners in the Middle East.

LOOKING AHEAD

- In Clothing & Home we expect a space decline of 1-2%, weighted towards the end of the year. We anticipate gross margin to be +25 to -25 basis points as we seek to mitigate currency headwinds with better buying and a further reduction in discounting.
- In Food, we expect space growth of c.7%, weighted towards the end of the year as we open c.90 new Simply Food stores. We anticipate input cost inflation will slightly outweigh operational efficiencies with a resulting decrease in gross margin of between 0 and -50 basis points largely weighted towards the first half.
- We expect UK cost growth of c.2.5 to 3.5% as a result of new space, cost inflation and the annualisation of investment in customer service, partly offset by Head Office restructuring efficiencies. Cost growth will be weighted towards the first half of the year.
- The 2017/18 effective tax rate on adjusted profit before tax is expected to be around 21% as a result of the Scottish Limited Partnership structure.
- Capital expenditure is expected to be c.£400m as we increase the rate of Simply Food store openings.

1. Based on restated FY16 figure of 7.4m due to improvements in data capture and analytics.

OUR PERFORMANCE

OUR PEOPLE

OUR PEOPLE

We took action this year to simplify and modernise our business in line with our strategy to put our customers at the heart of everything we do, keep things simple and work as one team. We reduced the number of roles in our UK Head Office by 590 alongside moving 400 IT and Logistics roles out of central London. We also put in place a fairer, simpler and more consistent approach to pay. The changes, which took effect in April this year, saw us increase basic pay for our Customer Assistants to a level well above the National Living Wage and move to a single approach for premium payments. We also moved to a more consistent and sustainable approach to pensions for all M&S employees and closed the UK defined benefit pension scheme to future accrual. These changes were made following an extensive consultation process with all employees through our National Business Involvement Group (BIG), M&S's network of elected employee representatives, and through town hall meetings and listening groups in our stores. The feedback gathered in these sessions directly influenced the outcome, which demonstrates the importance of BIG. We now have a pay and benefits package that is among the best in UK retail, which means we can both reward our store employees appropriately and continue to attract the best people to serve our customers. While no change is easy, these were necessary actions to build a robust platform for future growth. We are a more relevant and agile company as a result.

MAKING EVERY MOMENT SPECIAL IN OUR COMMUNITIES

Our people believe in doing the right thing, not just saying it. Spark Something Good is M&S's way of helping customers and colleagues make a real difference. This year, we took Spark Something Good to another seven cities, with over 4,000 customers and employees volunteering on more than 240 projects. We're also sparking something good by working to beat cancer – our colleagues and customers raised £3.2m for Macmillan Cancer Support through a series of activities such as our involvement in the World's Biggest Coffee Morning in stores across the country, and £2.8m for Breast Cancer Now.

We implemented customer-facing changes too. By increasing the number of employees in our stores, we can better serve our customers. Having more people on the shop floor has had a discernible impact on customer satisfaction levels and our people's engagement levels, creating a virtuous circle of improvement. Our Your Say survey showed that employee engagement increased again to 81%. It also highlighted areas where employees want to see an improvement – we learnt we need to do more to demonstrate the opportunities for development and this will be a focus in the year ahead.

In November, we outlined a reshaping of our UK store estate. Although this programme is in its early stages, over the next five years it will lead to change for some of our people. Our aim is to redeploy as many affected colleagues as possible and to create more jobs as we continue with our Food store opening programme. Through constant dialogue we will keep our people informed every step of the way – they will be the first to know of any changes that are planned.

Our 85,000 colleagues are the heart and soul of M&S, and we have put in place a clear strategy for our People that underpins our business strategy. We want to develop and attract great talent at all levels of our business. We want a winning culture, a diverse and inclusive workforce, and we want a fit and flexible organisation that allows our people to flourish. By fostering talent in a structured way at every level of M&S – be that on the shop floor, in our school leaver or graduate programmes or at more senior levels, our people can realise their full potential.

Our new Retail Apprenticeship programme is a prime example of fostering talent. Launched in May, we will take on 400 retail apprentices this year. They will gain experience in different parts of the business, including digital, and will finish the programme with a recognised qualification. The programme will provide the first steps to a career in retail. At M&S we want to instil an 'anything is possible' culture and we have great role models in a number of our senior team who started their careers in our stores.

BE YOURSELF

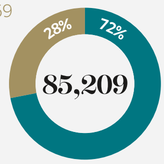
M&S has always taken employee wellbeing seriously. We have an established wellbeing programme, which includes a dedicated online Mental Wellbeing area on our employee online portal with tools and materials from mental health experts designed to support M&S employees and line managers alike in both prevention and support. We also had a series of activities bringing inclusion and wellbeing together under Dare to Be Yourself, with a series of events led by our expert diversity partners representing gender, ethnicity, LGBT+ and wellbeing looking at research, insight and views on the important link between wellbeing and inclusion.

A Our Marks & Start programme for people who face barriers getting into work went from strength to strength, helping over 2,900 people, around half of whom were under 25, take their first steps into work.

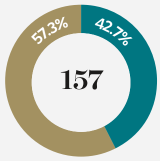
No business can stand still; we are focused on continuous improvement and being an agile and flexible organisation that is constantly evolving. Our long-term growth will rely on us having talented, dedicated people at our core.

EMPLOYEE DIVERSITY AS AT 1 APRIL 2017

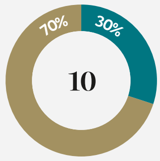
Total employees
Female 61,340
Male 23,869



Total senior managers
Female 67
Male 90



Total Board*
Female 3
Male 7



OUR PERFORMANCE

PERFORMANCE REVIEW

FOOD

We have had a good year in a difficult environment. Sales were up 4.2% and our growth outpaced the market. Over the year, our market share rose 20bps to 4.5%.

Our focus this year was on building on our strengths of innovation, quality and convenience. We made our food more accessible by opening 68 new Food-only stores, taking the total to 636, including 383 franchise stores. Between our three formats – Foodhall, Simply Food and Food To Go – we deliver convenient food in convenient locations, with ranges tailored to each store's location and size and offering the most relevant choice for our customers. We continue to focus on making the shopping experience as special as our food.

Constantly curious, our development team is always trying to push the boundaries of innovation. Independent tests prove that we are maintaining our lead on quality and innovation. We introduced 1,600 new lines this year, and from festive Secret Centre Cheeses to our Texan-inspired Smokehouse BBQ collection, newness accounted for a quarter of our entire range. We extended our premium Collections range to more products for customers looking for something extra special. We introduced shoppers to exciting new fruits and vegetables, including the biggest avocado on the UK high street and biancoli, a cauliflower similar in appearance and texture to Tenderstem broccoli. We added 14 dishes from Vietnam, Thailand, Singapore and Korea to our ever-popular Taste Asia range and offered customers a delicious fresh meal in 25 minutes with our relaunched Cook range. Our product developers are constantly working to translate the theatre of restaurant desserts into something our customers can enjoy at home – hits this year included our Chocolate Melting Dome and Chocolate & Passionfruit Star.

HEALTHY CHOICE

We want to lead the market on health by offering customers healthy ways to feel great and great ways to feel healthy. We extended our Eat Well range, and added 41 lines to our Made Without range, which has trebled in size since 2015 – sales rose 4% and 38% respectively. We introduced a wholesome store cupboard range with 37 new products across areas including dried grains and grain pots. Our expert chefs travelled to Japan to bring back the knowledge and skills required to develop a new collection of exceptional sushi using traditional methods and specialist ingredients. With specially selected Japanese rice, authentic nori seaweed, fresh wasabi and soy sauce brewed in Japan, it is our most authentic sushi range ever and customers love it – we have already sold 740,000 packs.

We know our customers want great value every time they shop with us. So we reduced the number of promotions we ran and focused on delivering competitive prices every day alongside simplified promotions. We upgraded our popular Dine In offer and our Indian Takeaway meal deals, and saw sales increases of 7% and 10%, respectively. A basket of our opening price point Simply products, excluding milk for which we pay a premium to our farmers, is competitor price-matched to ensure we are offering customers great value on everyday essentials.

At Christmas, we improved service for our customers with a new Christmas Food to Order site and a better in-store collection experience – customer satisfaction increased by 20%. We hosted Taste of Christmas events in 600 stores, offering our customers inspiration and the chance to try special and new products to help them plan their Christmas dining.

R Customers are increasingly concerned about the origin of their food, so maintaining the integrity of our food supply chain is essential to our success. At M&S we pride ourselves on our strong relationships with suppliers, from those with large factories to smaller craft producers. Our Farm Animal Health & Welfare Policy sets out the high standards we expect of our suppliers, and we have a dedicated team of agriculture and fisheries specialists responsible for implementing our agriculture policies across our supply base. Our business is founded on a long-standing mutual trust between us, our suppliers and our customers. So if a trusted supplier makes a mistake, we believe it is right to stick with them, help them to rectify the issues and, in turn, make them a more robust business.

R A TRANSPARENCY

Our sustainability credentials are a key part of the M&S difference and we need to ensure our strong ethical standards remain at the forefront of everything we do. We published our inaugural Human Rights Report which outlines the steps we are taking to support and respect human rights and our plans for the future. We were one of first organisations to report against the UN Guiding Principles on Business and Human Rights Reporting Framework and the highest ranked retailer in the Corporate Human Rights Benchmark. We also extended the reach of our interactive supply chain map to include Food, Beauty and Home suppliers.

We know our strategy in Food is the right one. We will continue to make every food moment special with our differentiation, newness and quality.

CLOTHING & HOME

Our priority in Clothing & Home is to recover and grow sales. We have focused on improving quality, lowering prices and streamlining our ranges. Our performance is on an improving trajectory as a result.

Sales over the year fell by 2.8% to £3.8bn as we reduced our reliance on discounting. We grew market share in Lingerie and Kidswear, and stabilised our share in Menswear. We removed a greater proportion of promotions from Womenswear which affected market share. As we continue our journey of improvement, one overarching aim underpins everything we do: to get it right. Right product. Right price. Right fit. Right availability. Delivered with great service. We believe we are on a solid path to sustainable growth.

Read more about our Clothing & Home strategy on p08-09

We reduced the number of promotions and lowered prices to focus on full-price clothing sales. As result full-price sales were up 2.7%. We have lowered over 2,400 prices since January 2016, particularly on opening

OUR PERFORMANCE CONTINUED

price points, so we are now offering our customers better value every day. We ran 89 fewer promotions and reduced the number of sales in the year from nine to six. In 2017, we will reduce this further to four. At the same time, we increased the number of tailored promotions for Sparks members so that we continue to reward our loyal customers. By removing the noise of constant promotional activity and by cutting prices, we delivered more consistent value and restored our price integrity and customers noticed the difference. For example, when we lowered the price of jeggings from £19.50 to £15, sales rose by 35% year-on-year. This resulted in an improvement in full-price sales.

We are working hard to improve the style and design of our products. In Womenswear, this means creating beautiful, high quality wardrobe essentials, the area for which M&S is famous, in one master colour palette. We know fit is one of the most important measures of quality for our customers, so we reviewed and updated our block patterns to ensure that everything from exactly where we put darts to the measurements on a neckline means we are offering a consistent, good fit. In Men's formalwear, we reduced the number of fits from six to four while increasing the range of styles, colours and sizes. This gave clarity to shoppers and customer feedback measures on quality, fit and style were all up on the previous year.

Some of our customers told us that M&S had become too difficult to shop in, with too much product duplication leading to confusion about the sub-brands. So we are streamlining our ranges by cutting the number of sub-brands we sell; Indigo in Womenswear and Collezione and North Coast in Menswear are being phased out. We also trimmed the number of clothing lines we offer by 12%. At the same time, we have increased the depth of our buys and improved availability across all Clothing & Home departments. The result was more consistent ranges with better size and colour availability.

It is now a year since we changed the structure of our Womenswear team to focus on product categories rather than brands. We have also simplified how we work in Menswear, with an even greater focus on product categories that reflects how our male customers shop. Some 68% of our products are now designed in-house and our simplified structure means our buying teams across Clothing & Home can work in a more collaborative way. Not only does this remove duplication and allow greater coordination in our pricing architecture, but it leads to efficiencies in our supply base. We can focus on working with our best suppliers and buy bigger volumes and better quality fabrics through fewer factories.

R Our improved margin performance is a result of better sourcing and less reliance on promotions. Whilst there is a risk that rising sourcing costs will impact margin growth, our efficient buying operation and strong focus on costs will help mitigate this.

We increased our focus on product categories for which we are best known, such as Lingerie, Schoolwear, Bedding and Bath, which resulted in market share growth in all these categories. We know where our strengths lie and these categories provide opportunities for growth. From our credibility in Food, we will grow our Cooking & Dining departments. We will capitalise on our number one market share position in Schoolwear to grow our school shoes market share. We also have a great opportunity in Beauty – we sold 210,000 of our innovative Beauty Advent Calendar in just two weeks, highlighting the success of offering something different to our customers.

Customers are responding positively to these changes. As we move through recovery to growth, we will continue to listen to our customers and to focus on contemporary style and wardrobe essentials with better products, prices and availability.

INTERNATIONAL

This year we announced changes to our International operations that will build a more sustainable, profitable and customer-focused International business for M&S.

International revenues were broadly flat at -0.1% at constant currency (up 10.7% on a reported basis) while adjusted profits grew 15.4% to £64.4m. However, performance varied across different parts of the business. While our franchise business made a profit of £81.9m, our owned business was loss-making in a number of markets. In our franchise business, revenues from shipments to our partners declined by 3%, due to lower shipments to the Middle East as a result of the weak retail market in the region, although there was better momentum in the second half of the year. Shipments to our European partners increased, driven by new Food store openings in France, while shipments to Asia also benefitted from the expansion of our Food business and new store openings.

As we announced in November, our new strategy will put our International business on a more sustainable footing by focusing on our partnership models. International opportunities for growth remain in markets where M&S's unique offer resonates with customers. The action we are taking will make us more customer- and partner-focused, driving sustainable profit growth overseas in a capital-light way.

Our decision to exit owned stores in ten markets will result in the closure of 53 stores, the last of which is expected to shut this autumn. The affected businesses were loss-making and in markets where there is limited opportunity for growth. These closures resulted in charges of £130.5m, which significantly impacted profits this year. We also simplified our overseas multichannel strategy, closing websites in very small markets and shifting more focus on leveraging our M&S.com platform and e-commerce distribution centre to fulfil international orders.

OVERSEAS GROWTH

In April we opened our new flagship store in Doha with our largest franchise partner, Al-Futtaim. The 46,000 sq ft store in the Doha Festival City Mall sells fresh food for the first time in Qatar. It also features our largest international Lingerie department, an in-store bakery and a table-waited M&S Café, which serves British classics like fish and chips and afternoon tea. The store is the 28th M&S store in the Gulf and the third in the city.

We've simplified our International business and remain committed to our international ambitions. We still sell our products from Dublin to Dubai and from Sydney to San Francisco. After the reorganisation, we will trade in 50 markets with over 400 stores and an online presence in 25 markets. We are just as focused on our customers internationally as we are in the UK – international customer satisfaction levels have risen significantly year-on-year. The changes will allow us to play to our strengths in markets where we have strong brand awareness, an established store estate and a loyal customer base. Going forward, we will continue to expand with our trusted franchise partners, enabling us to leverage their scale, infrastructure and local expertise. We will focus on our successful joint ventures in India, where like-for-like clothing sales grew 9%, and Greece, where sales were up 3% on a constant currency basis. We also remain committed to our established owned business in the Republic of Ireland, which this year was affected by our strategy to reduce promotions and discounting. We will expand our popular franchised Food business in France. In addition, we will continue to reach customers through fully localised owned and operated websites, via established marketplaces such as Myntra in India and Zalando in Europe and with our franchise partners.

REACHING OUR CUSTOMERS

In November we outlined plans to reshape our UK store estate to ensure it remains relevant and convenient for our customers. The changing shape of retail and the growth in online has inevitably had an impact on our space requirements. This year alone, online sales rose by 5.6% on a reported basis to £836.3m (up 4.9% at constant currency). We will reduce our Clothing & Home space by around 10% over the next five years while continuing to grow sales through fewer stores in better locations and through M&S.com. We are also improving the customer experience in store. As part of the transformation, we will improve around 25% of our Clothing & Home space. More space will be deployed to Food and to growth areas such as Kidswear and Home. Approximately 30 full-line stores will close. At the same time, we will open 250 new Simply Food stores to take our Food business to even more customers. This will result in us having more stores in more convenient locations with an estate that reflects how our customers want to shop with us.

Our commitment to putting our customers at the heart of everything we do has been brought to life this year through our Making Every Moment Special initiative. It's about knowing our customers and listening to what they want. The results have seen customer service satisfaction ratings improve, and our people are energised – Making Every Moment Special has evolved into a movement within M&S. We also made changes in store that further enabled our colleagues to spend more time with our customers. We put over 3,000 extra employees in key areas; we removed certain tasks that were taking colleagues off the shop floor; we introduced hosts in some of our bigger stores to greet customers; and we introduced handheld devices to improve the shopping experience. This technology gives our store colleagues access to a wealth of information that enables them to spend more time helping customers, from up-to-date stock information to letting them assist with activating Sparks offers.

We also made our stores easier to shop in. Following customer feedback, we reduced co-ordinated displays and the space given to sub-brands. Meanwhile we increased space for destination areas, such as Coats and Knitwear, and put these to the front of the store. We reviewed our ranging to ensure better availability and more choice. Customers rightly want a similar experience of M&S however they shop with us and this new approach means the shopping journey in store is more aligned to that on M&S.com.

Our drive to improve availability was as relevant to M&S.com as it was for our stores and there was a significant improvement over the year. This omnichannel approach means we can be responsive to how and where our customers are shopping and make best use of stock to ensure customers get what they want.

We have improved the shopping experience across all devices over the year as we made them easier to use through a series of small upgrades and page developments. We know our customers like the reliable service that shopping on M&S.com offers – our post-purchase net promoter scores are at an all-time high.

Online shopping often starts with a specific item rather than a specific retailer so we made changes to our pages to make them easier for search engines to read and list. This helps attract more online shoppers to M&S.com – in the two weeks leading up to Easter, non-paid revenue from search engines was up 29%. We are aligning our channels to give customers consistent and complementary experiences online and in store. For example, promotional activity on M&S.com now mirrors what happens in our stores. Our online tool for booking a store bra fitting is used by over 1,500 customers a day. Shop Your Way remains a crucial nexus between our physical and online stores. Two-thirds of our online transactions also touch a store at some point – whether ordering in store or picking up there. Over half of all Sparks visits are made via mobile, making it a crucial sales and communication channel for us. Looking ahead, we will focus on improving the speed of our site, particularly on mobile, and offering a broader range of delivery options.

LISTENING TO OUR CUSTOMERS

Our Easy Dressing School Uniform, created with customer insight and help from the National Autistic Society, makes dressing for school easier, quicker and more comfortable for both parents and children. Popular items include the Boy's trousers, which are a 'pull up' style, so no fiddly zips or buttons, with the care label inside the side pocket for comfort. After a customer contacted us about offering clothing for children like her grandson who have specialist needs, we worked closely with her, her grandson and other families on adapting and extending some of our bodysuits and sleepwear up to age 7-8. The range was very well received and we have since introduced more products and extended it up to age 16.

ENGAGING OUR CUSTOMERS

R Amid fierce competition, it is vital that our brand remains relevant to our customers. Through our marketing activity this year we have taken a different approach to engaging with customers. It is an approach built on what they have told us, rather than what we want to tell them. It's designed to show that we understand their lifestyles and what matters to them. It's aimed at reinforcing an emotional connection and at sparking conversations about M&S and fresh new thinking about our brand.

Our new marketing approach focuses on the feeling and emotion people get when they shop at M&S. We first used it in our award-winning Mrs Claus Christmas campaign, which had over 22.5m online views and resulted in high customer engagement. Where previous ads have centred on the things we sell, Mrs Claus – the tale of Santa's wife as a skilled behind-the-scenes operative – was our first ever non-product-led campaign. It aimed to tap into people's emotional connection with M&S. Through our #lovemrsclaus social media hashtag and tie-ins with our Make Every Moment Special activity in store, Mrs Claus was a key ingredient that lifted our Christmas performance.

On the back of the campaign's success, in May this year we introduced our new brand proposition. More than a tagline, Spend It Well is a call to action, designed to inspire and enable our customers to make every moment special by focusing on the experiences, people and things that really matter. The campaign represents a commitment to putting customers at the heart of everything we do and it is the first we have created based on deep customer insight. With its significant focus on customer experience on and offline, it aims to position M&S as an enabler of a life well lived. This is also the first time we have united both Food and Clothing & Home under a single brand philosophy. Spend It Well will sit across all digital channels, stores, marketing communications and Sparks, giving our customers a clear and consistent view of M&S.

Our Sparks membership club is pivotal when it comes to giving customers what they want and rewarding their loyalty. Nearly 1.6m members joined this year, taking total membership to 5.6m. Sparks analytics have given us access to a wealth of insights that enable us to be more relevant to our customers. We aim to create a personal relationship with them, allowing us to tailor our offers and experiences. By doing this we have shown that we can encourage people to shop more frequently in different categories and via different channels, and devices, thereby creating shareholder value. We are working on making Sparks even better. Over the next year we will increase levels of personalisation, make the scheme easier to use at different customer touchpoints, and continue to drive shopper behaviour in ways that are relevant to them.

A Since we launched Plan A in 2007, it has sparked some fantastic innovations. It has made us challenge the way we do things and to think differently. It has also helped us to have a positive impact on communities. The new iteration of Plan A comes with a new ambition: to increase levels of engagement with our customers by addressing the issues we know they really care about. We have identified three new priorities around which all our Plan A activity will be based: Wellbeing, Community and Planet.
The launch dovetailed with our Spend It Well campaign; after all, looking after the planet and living life to the full are part of the same philosophy.

Read more about our new Plan A commitments marksandspencer.com/plana

OUR PERFORMANCE

FINANCIAL REVIEW

We believe our strategy to recover and grow M&S, alongside our strengthened approach to capital management, will **deliver profitable, sustainable growth for our shareholders**.

HELEN WEIR CHIEF FINANCE OFFICER

FIND OUT MORE

See our **KPIs** on p18-21 See our **Strategic Update** on p08-11
Read about our **operating performance** on p23-25 See **how performance links to Remuneration** on p56

This year we are reporting on the 52 weeks to 1 April 2017 compared with last year's 53-week year. To provide a more meaningful comparison with last year, all financial movements in this section are reported relative to the 52 weeks to 26 March 2016, unless otherwise noted.

During the year we set out our new strategy to put M&S on a more sustainable footing and establish the basis for future growth. Although we are confident that these actions are the right ones to recover and grow M&S, they have not come without significant cost. As a result, on a 53-week reported basis Group profit before tax was down 63.9% to £176.4m (last year £488.8m) and profit before tax and adjusted items was £613.8m, down 11.0% (last year £689.6m).

OUR OPERATING PERFORMANCE

In Food, we continued to outperform a challenging grocery market, with revenue up 4.2% to £5.6bn (last year £5.4bn). Driving growth through our store opening programme, we opened 30 new owned and 38 new franchise Food stores and increased market share by 20bps to 4.5%. Food gross margin was down 25bps year-on-year due to input price pressure as a result of the fall in sterling, and higher than anticipated waste.

Clothing & Home revenue was down 2.8% at £3.8bn (last year £4.0bn), as sales were affected by our strategy to reduce our reliance on promotions and sale activity. However, we are encouraged by the increase in full-price sales, which were up 2.7%, and market share stabilisation and we are confident that we are taking the right action for the long-term success of our clothing business. Clothing & Home gross margin increased by 105bps to 56.1% as a result of lower discounting and buying margin gains as we continue to leverage our direct sourcing capabilities and scale. These factors more than offset the significant headwind as a result of the decline in value of sterling, which had a significant impact on our cost of goods.

UK operating costs were £3,390m (last year £3,266m), up 3.8%, with the primary drivers being the costs associated with investment in new space and IT, as we continue to upgrade our systems and infrastructure to support future growth.

International operating profit before adjusted items was £64.4m, up 15.4% (last year £55.8m). This improvement was due to a significant reduction in losses in owned markets; of this, £7m is a result of the provision for certain onerous leases taken as an adjusted item following our decision to exit owned stores in ten countries. Profits from our franchise markets were slightly down due to lower shipments to our franchise partners in the Middle East in the first half of the year.

Group profit before tax was down to £176.4m (last year £488.8m on a 53-week basis) as a result of the significant charges associated with the implementation of our revised strategy. This included £132.5m for International store closures and impairments and £156.0m relating to the closure of our UK defined benefit pension scheme and changes to pay and premiums. We also continued to incur charges in relation to a provision by M&S Bank for insurance mis-selling which this year were £44.1m (last year £50.3m). Of the £437.4m of adjusting items, £80.9m were cash in the year.

Further details are on p28 and in note 5 on p103-104.

Cash generation in the business remains strong with free cash flow before shareholder returns of £585.4m (last year £539.3m on a 53-week basis). During the year, we further strengthened our capital management disciplines. Capital investment was significantly down as we have completed some of our larger infrastructure projects and opened fewer full-line stores than last year. Net debt reduced by £203.6m during the year to £1.9bn.

We issued a new £300m bond in December, in advance of a $500m bond expiry in December 2017. We remain committed to a strong balance sheet and maintaining an investment grade credit rating. Our credit rating is BBB minus.

CAPITAL MANAGEMENT AND IMPROVING SHAREHOLDER RETURNS

Following several years of investment, we now have the infrastructure needed for sustainable growth. However, some of these investments have not generated the returns we had hoped for and some have cost more than they should. We are also operating in a marketplace undergoing significant changes. While we remain committed to investing in the growth of M&S, we need to do this within a tighter investment framework. Under this approach, we are already placing a greater emphasis on cash payback when assessing investments to help improve the reliability of returns. We also plan to reduce the average length of our leases, giving us greater flexibility, and to ensure we have a better mix between growth and 'business as usual' investments. We believe this approach will enable us to prioritise key investments while improving returns to our shareholders.

We recognise the importance of regular dividends and we are committed to delivering sustainable shareholder returns. During the year we returned £377.5m to shareholders, which included £74.5m in the form of a special dividend. Notwithstanding the decline in profits but after considering the strong cash generation characteristics of the Group, the Board decided to maintain the full year dividend at 18.7p (last year 18.7p).

During the first half, we declared a special dividend of 4.6p per share. However, given the potential cash costs associated with our strategic changes and uncertain market conditions, the Board took the prudent decision not to make an additional return of cash to shareholders under our enhanced shareholder returns programme in the second half.

Despite the fall in profit, we believe we have the right strategy in place to recover and grow M&S and this, alongside our strengthened approach to capital management, will deliver profitable, sustainable growth for our shareholders.

FULL YEAR REVIEW

	52 weeks ended		
	1 Apr 17 £m	26 Mar 16 £m	Change on LY %
Group revenue	**10,622.0**	**10,391.0**	**2.2**
UK revenue	9,441.7	9,324.8	1.3
International revenue	1,180.3	1,066.2	10.7
Adjusted Group operating profit	**690.6**	**777.6**	**-11.2**
Adjusted UK operating profit	626.2	721.8	-13.2
Adjusted International operating profit	64.4	55.8	15.4
Adjusted profit before tax	**613.8**	**684.1**	**-10.3**
Adjusted items	(437.4)	(200.8)	n/a
Profit before tax	**176.4**	**483.3**	**-63.5**

GROUP REVENUE

Group revenues were up 2.2% (up 1.1% on a constant currency basis). UK revenues were up 1.3% in total with a like-for-like decrease. International revenues were up 10.7% (-0.1% on a constant currency basis).

GROSS MARGIN

UK gross margin was 42.0%. Clothing & Home gross margin was ahead of expectations, up c.105bps year-on-year. Buying margin increased by 100bps despite currency headwinds as we continued to deliver benefits from leveraging our direct sourcing capabilities through retendering orders, and by moving business to lower-duty locations. Reduced discounting benefited margin by c.5bps on the year with an 110bps improvement in the second half, as a result of lower stock into sale and better sell through rates.

Food gross margin declined -25bps year-on-year, which was more than expected. We generated gains from our ongoing value optimisation programme of 70bps. However, these were more than offset by an increase in input costs of 80bps, following the depreciation of sterling and higher than expected waste.

UK OPERATING COSTS

	52 weeks ended		
	1 Apr 17 £m	26 Mar 16 £m[1]	Change on LY %
Store staffing	**1,010.3**	974.4	3.7
Other store costs	**1,000.7**	974.4	2.7
Distribution and warehousing	**519.6**	475.4	9.3
Marketing	**162.7**	186.1	-12.6
Central costs	**697.1**	655.8	6.3
UK Operating Costs	**3,390.4**	**3,266.1**	**3.8**

1. Certain prior year costs have been reclassified to reflect changes in UK organisation structure

UK operating costs were up by £124m (3.8%), with higher depreciation accounting for £26m.

Store staff costs increased by £36m primarily driven by new space with the cost of the annual pay review and investments in improved store service largely offset by business efficiencies.

Within other store costs, new space drove the increase, with occupancy cost inflation largely offset by efficiencies and lower depreciation.

Distribution and warehousing costs increased by £44m. A significant proportion of this increase was driven by increased capacity to support growth in our business, with a new Food depot in Enfield and Clothing & Home warehouse in Bradford. The balance was largely attributable to increased food volumes and inflation.

Marketing costs declined by £23m. This was mostly a result of a reduction in activity and the more effective use of our marketing budget, such as our Christmas campaign where we increased customer views while reducing costs, as well as the annualisation of the launch of Sparks last year.

Central costs increased by £41m. This was largely driven by an increase in IT related operating costs including higher depreciation from new merchandising systems. A greater proportion of costs are now being expensed as we transition to increased use of cloud based software services. As expected, around half of the anticipated c.£30m cost savings from our Head Office restructuring were delivered during the year.

BUILDING A SUSTAINABLE, PROFITABLE, INTERNATIONAL BUSINESS

	52 weeks ended		
	1 Apr 17 £m	26 Mar 16 £m	Change on LY %
Franchise	**314.0**	324.4	-3.2
Owned:	**866.3**	741.8	16.8
Retained	**686.9**	580.9	18.2
Exit	**179.4**	160.9	11.5
Revenue	**1,180.3**	**1,066.2**	**10.7**
Franchise	**81.9**	87.3	-6.2
Owned:	**(17.5)**	(31.5)	44.4
Retained	**17.2**	15.3	12.4
Exit	**(34.7)**	(46.8)	25.9
Operating Profit	**64.4**	**55.8**	**15.4**

During the year, International revenues rose by 10.7% driven by currency translation, with constant currency sales down 0.1%. Profit before adjusted items increased by 15.4% to £64.4m.

In our franchise business, shipments to Asia benefited from new store openings and expansion of our Food business. We saw a good performance from Europe, where shipments increased, driven by new Food store openings in France. Revenues from the Middle East were affected by de-stocking and weak retail markets, although the trend improved in the second half of the year, with a similar trend in profits.

In our retained owned business, constant currency revenues increased by 2%. Our joint venture business in India performed well, with seven new store openings during the year. Sales in the Republic of Ireland and in Hong Kong were affected by our strategy to reduce discounting. Profit in retained owned markets improved. Lower operating profits in Hong Kong were offset by an improved performance in the Czech Republic and India.

International restructuring costs include £7m of lease costs relating to stores either closed, or in the process of closing. This contributed to the reduction of losses in exit markets. The remaining store closures will be largely complete by the end of the first half and we now expect to reduce the losses in exit markets by between £20 and £25m in the current year. Total closure costs related to the International strategy are expected to be at the lower end of the previously indicated range at c.£150m. The cash costs associated are expected to be c.£135m, with the vast majority incurred in 2017/18.

ADJUSTED OPERATING PROFIT

Group adjusted operating profit was £613.8m (last year £684.1m). UK operating profit was £626.2m.

FINANCIAL REVIEW CONTINUED

NET FINANCE COSTS

	52 weeks ended 1 Apr 17 £m	52 weeks ended 26 Mar 16 £m	Change on LY £m
Interest payable	**(100.2)**	(99.1)	(1.1)
Interest income	**6.6**	5.8	0.8
Net interest payable	**(93.6)**	**(93.3)**	**(0.3)**
Pension net finance income	**29.3**	15.3	14.0
Unwind of discount on partnership liability	**(12.6)**	(14.7)	2.1
Unwind of discounts on financial instruments and provisions	**0.1**	(0.8)	0.9
Net finance cost	**(76.8)**	**(93.5)**	**16.7**

Net finance cost reduced by £16.7m largely due to increased pension net finance income as a result of a higher UK defined benefit scheme surplus at the start of the year. Net interest payable increased marginally to £93.6m. The interest payable on the new £300m bond issued in December as we pre-financed an existing bond expiring in December 2017 was almost fully offset by the reduction in interest rates year-on-year.

GROUP PROFIT BEFORE TAX AND ADJUSTED ITEMS

Group profit before tax and adjusted items was £613.8m, down 10.3% on last year (down 11.0% on a 53-week basis). The decrease was primarily due to the reduction in Clothing & Home gross profit and the increase in operating costs in the year.

M&S Bank profits were down £9.7m as a result of the reduction in interchange fees, and lower interest bearing balances.

ADJUSTMENTS TO PROFIT BEFORE TAX

The Group makes certain adjustments to statutory profit measures in order to derive alternative performance measures that provide stakeholders with additional helpful information on the performance of the business.

Adjusted items	52 weeks ended 1 Apr 17 £m	52 weeks ended 26 Mar 16 £m
Strategic programmes:		
– changes to pay and pensions	**(156.0)**	–
– UK organisation	**(24.0)**	–
– UK store estate	**(51.6)**	(37.0)
– International store closures and impairments	**(132.5)**	(31.6)
UK store impairments and onerous lease charges	**(48.8)**	–
M&S Bank charges incurred in relation to the insurance mis-selling provision	**(44.1)**	(50.3)
UK Logistics	**9.8**	9.2
Legal settlements	**9.8**	–
Other impairments	**–**	(94.5)
IAS 39 fair value movement of embedded derivative	**–**	(2.0)
Net gain on acquisition of joint venture holding Bradford warehouse	**–**	5.4
Adjustments to operating profit and profit before tax	**(437.4)**	**(200.8)**

During the period, the Group announced changes to our pay and pensions arrangements within the UK business. We closed our UK defined benefit pension scheme to future accrual effective from 1 April 2017 resulting in a one-off charge of £127.0m. In respect of pay, we announced an increase in our base level of pay to £8.50 per hour as well as the removal of a number of premium payments. The Group has recognised a charge of £23.6m in the year in relation to this. The Group anticipates making transition payments to employees in relation to the closure of the defined benefit scheme, of c. £25m (in aggregate) over the next three years. These amounts will be recognised within adjusted items as they are incurred.

During the period, following completion of a detailed review of the UK organisation, the Group announced proposed changes to its UK Head Office structure. The changes have resulted in a net reduction of c.590 Head Office roles, with restructuring costs in the year of £15.4m inclusive of fees. The Group also announced an 18-month programme to centralise its London Head Office functions into one building. The Group has recognised a net charge of £8.6m associated with this rationalisation.

In November, the Group announced a strategic programme in relation to the UK store estate. As part of this programme, during the year ten UK stores were approved for closure resulting in closure costs of £47.3m relating to dilapidations, sub-let shortfalls, accelerated depreciation of fixtures and fittings and impairment of assets. The balance of the charges of £4.3m in the period related to the ongoing review of assumptions associated with previously closed stores. We continue to expect total adjusted items related to this programme of c.£350m.

The Group has announced its intention to close its owned stores in ten international markets resulting in the recognition of a cost of £130.5m in the period. The expected closure costs primarily relate to redundancy, lease exit and property dilapidations. The closure programmes are ongoing in all markets, with the exception of China where the final store was closed on 1 April 2017. International store impairment testing during the year identified a number of stores where current and anticipated future performance does not support the carrying value of the stores with a resulting impairment charge of £9.0m being incurred. Offsetting these store impairments are credits of £7.0m relating to the reversal of historic impairments against five stores in Ireland and the release of unutilised provisions on completion of the exit from the Balkans.

UK store impairment testing during the year has identified a number of stores where the current and anticipated future performance does not support the carrying value of the stores. As a result, a charge of £39.4m has been incurred in respect of the impairment of assets associated with these stores. A further charge of £9.4m has been incurred in respect of onerous lease provisions associated with some of these stores.

The Group continues to incur charges in relation to M&S Bank insurance mis-selling provision. The Group's income from M&S Bank has been reduced as a result of a further £44.1m of charges in the year.

A net credit of £9.8m has been recognised in the year in relation to an updated view of the estimated closure costs of legacy logistics sites associated with the strategic transition to a single tier distribution network.

During the year the Group has reached various legal settlements resulting in a net credit of £9.8m.

The cash flow impact of adjusted items was £80.9m in the year.

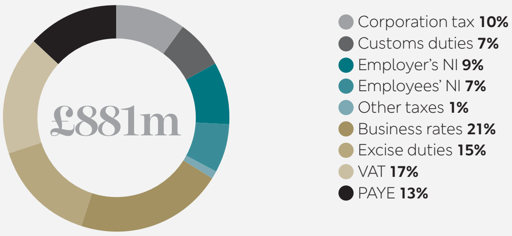
GROUP PROFIT BEFORE TAX

Group profit before tax was £176.4m, down from £483.3m last year (£488.8m on a 53 week basis). The decrease was largely due to the impact of the strategic programmes in the year including the curtailment costs associated with the closure to future accrual of the UK defined benefit pension scheme, costs associated with the closure of our owned stores in ten International markets and the UK store estate.

TAXATION

The effective tax rate on profit before tax and adjusted items was 19.9% (last year 17.2%). The effective tax rate was 34.4% (last year 17.3%) due to the impact of disallowable adjusted items. The 2017/18 effective tax rate on adjusted profit before tax is expected to be around 21% as a result of the Scottish Limited Partnership structure.

TOTAL TAX CONTRIBUTION



In 2017, our total cash tax contribution to the UK Exchequer was £881m (2016: £857m); split between taxes ultimately borne by the Company of £423m (2016: £419m) (i.e. corporation tax, customs duties, employer's NIC, business rates and sundry taxes) and taxes attributable to the Company's economic activity and which are collected on behalf of the government of £458m (2016: £438m) (i.e. PAYE, employees' NIC, value added tax, excise duties and sundry taxes).

EARNINGS PER SHARE

Basic earnings per share decreased by 70.7% to 7.2p (decreased by 71.1% on a 53-week basis) largely as a result of the impact of the adjusted items in the current year. The weighted average number of shares in issue during the period was 1,623.1m (last year 1,635.9m).

Basic earnings per share before adjusted items decreased by 12.6% to 30.4p (decreased by 13.1% on a 53-week basis) due to the lower adjusted profit generated in the year.

CAPITAL EXPENDITURE

	52 weeks ended 1 Apr 17 £m	53 weeks ended 2 Apr 16 £m	Change on LY £m
UK store environment	**22.6**	36.9	(14.3)
New UK stores	**75.0**	106.4	(31.4)
International	**13.4**	26.4	(13.0)
Supply chain and M&S.com	**46.1**	89.1	(43.0)
IT	**110.8**	161.1	(50.3)
Property maintenance	**90.3**	79.6	10.7
Proceeds from property disposals	**(27.0)**	(30.6)	3.6
Total capital expenditure excluding acquisition	**331.2**	**468.9**	**(137.7)**
Joint venture owning Bradford warehouse	**–**	56.2	(56.2)
Total capital expenditure	**331.2**	**525.1**	**(193.9)**

UK store environment spend included investment in increasing the flexibility of our in-store layout in Womenswear, new store fascias and rebranding our Food halls. Spend was down year-on-year due to completion of a number of in-store schemes last year, primarily in Lingerie and Kidswear.

New UK store spend was down as a result of fewer new full-line stores opening. During the year, we opened 30 owned Simply Food, three full-line stores and two relocations compared to 25 owned Simply Food, five full-line stores and two relocations in the previous year. Clothing & Home space increased by 0.9%.

International spend was significantly lower as a result of the decision to exit stores in 10 markets. Spend in the year was largely focused on new stores in India and refurbishment projects in Hong Kong.

We continue to invest in improving our supply chain and IT infrastructure although the total spend has reduced as we have completed some of our larger infrastructure projects. During the year, we opened a new Food depot in Enfield as well as investing in our warehouse in Bradford. Within M&S.com the reduction in capital expenditure reflects the move towards customer focused enhancements which are expensed and away from larger infrastructure projects.

Investment in IT comprised of upgrading our in-store wifi networks and investing in additional handheld devices which improve efficiency and customer service in-store. In addition, as we move towards more cloud based software solutions, a larger proportion of costs are now being expensed.

Maintenance spend has increased primarily due to investment in more energy efficient in-store equipment such as lighting.

The proceeds from property disposals mainly relate to the final instalment of deferred consideration from the sale of the White City warehouse.

CASH FLOW AND NET DEBT

	52 weeks ended 1 Apr 17 £m	53 weeks ended 2 Apr 16 £m	Change on LY £m
Adjusted operating profit	**690.6**	**784.9**	**(94.3)**
Depreciation and amortisation before adjusted items	**589.5**	576.8	12.7
Non cash pension and share charges	**110.9**	118.0	(7.1)
Adjusted items cash outflow	**(80.9)**	(63.2)	(17.7)
Working capital	**(9.1)**	13.2	(22.3)
Pension funding	**(135.3)**	(118.4)	(16.9)
Capex and disposals	**(383.2)**	(519.5)	136.3
Acquisition of joint venture	**–**	(56.2)	56.2
Interest and taxation	**(202.6)**	(206.0)	3.4
Share transactions	**5.5**	9.7	(4.2)
Free cash flow pre-shareholder returns	**585.4**	**539.3**	**46.1**
Dividends paid	**(377.5)**	(301.7)	(75.8)
Share buy back	**–**	(150.7)	150.7
Free cash flow	**207.9**	**86.9**	**121.0**
Opening net debt	**(2,138.3)**	**(2,223.2)**	**84.9**
Exchange and other non-cash movements	**(4.3)**	(2.0)	(2.3)
Closing net debt	**(1,934.7)**	**(2,138.3)**	**203.6**

The reduction in capital and acquisition expenditure was partially offset by weaker business performance, with adjusted operating profit down £94.3m. Working capital was broadly flat on the year with a reduction in Clothing & Home inventory offset by a reduction in creditors. Pension funding was up £16.9m due to an increase to the UK defined benefit contributions rate following the 2015 triennial valuation. Additionally, cash payments associated with adjusted items were £17.7m higher in the year driven by the International strategy.

The business delivered free cash flow pre-shareholder returns of £585.4m, an increase of £46.1m on the prior year.

The Strategic Report, including pages 30 to 33, was approved by a duly authorised Committee of the Board of Directors on 23 May 2017, and signed on its behalf by

HELEN WEIR CHIEF FINANCE OFFICER
23 May 2017

OUR PERFORMANCE

RISK MANAGEMENT

As with any business, we face risks and uncertainties on a daily basis. Effective risk management is essential to **support the achievement of our strategic and operational objectives**.

APPROACH TO RISK MANAGEMENT

The Board is accountable for carrying out a robust assessment of the principal risks facing the Company, including those threatening its customers, people, values, reputation, business model, operations, safety, future performance, solvency or liquidity. On behalf of the Board, the Audit Committee reviews the effectiveness of the risk management process.

Each business area is responsible for formally identifying and assessing its risks half-yearly, measuring them against a defined set of criteria, and considering the likelihood of occurrence and potential impact to the Group. The Group Risk function facilitates a similar exercise with members of the Operating Committee, before combining these perspectives to create a consolidated view. In compiling this complete risk profile, consideration is given to risks that are external to our business, core to our day-to-day operations, related to business change and any other that may impact achievement of our future strategy.

The principal risks identified by this process form our Group Risk Profile, which is agreed by the Operating Committee ahead of final review and approval by the Board. In addition to this periodic review, key areas of risk are subject to regular oversight and challenge by the Operating Committee and, where appropriate, by the Board and Audit Committee, during the course of the year.

The directors' assessment of the long-term viability of the Company is also reviewed annually, mindful of the principal risks faced. Further detail on our approach to assessing long-term viability can be found on page 31.

KEY AREAS OF FOCUS

We continue to challenge and improve the quality of risk information generated across the business, while maintaining a simple and practical approach. Our ways of working with the Operating Committee have evolved during the year. More detailed discussion regarding the nature and extent of our principal risks has enhanced our understanding in the context of the business's risk appetite, as well as informing our consideration of emerging risk areas. By completing periodic 'deep dives' on targeted, connected risks, we can also better assess the effectiveness of the mitigating activities in place and strengthen our approach to risk management.

RISK APPETITE

The UK Corporate Governance Code requires companies to determine their risk appetite in terms of the nature and extent of the principal risks faced and those they are willing to take in achieving strategic objectives. In addition to assessing whether residual risk is at an acceptable level in the context of overall risk appetite, the Board has established a set of risk appetite statements that address key risk areas and specific operations. The statements articulate risk parameters within which the Group operates, supported by our policies and procedures. In addition to ensuring that our risk appetite statements remain relevant and evolve with the business, we recognise the importance of fostering an environment where innovation can thrive. Consequently, there are times when there may be merit in operating outside agreed risk parameters, if appropriate approvals and mitigating controls are in place.

PRINCIPAL RISKS AND UNCERTAINTIES

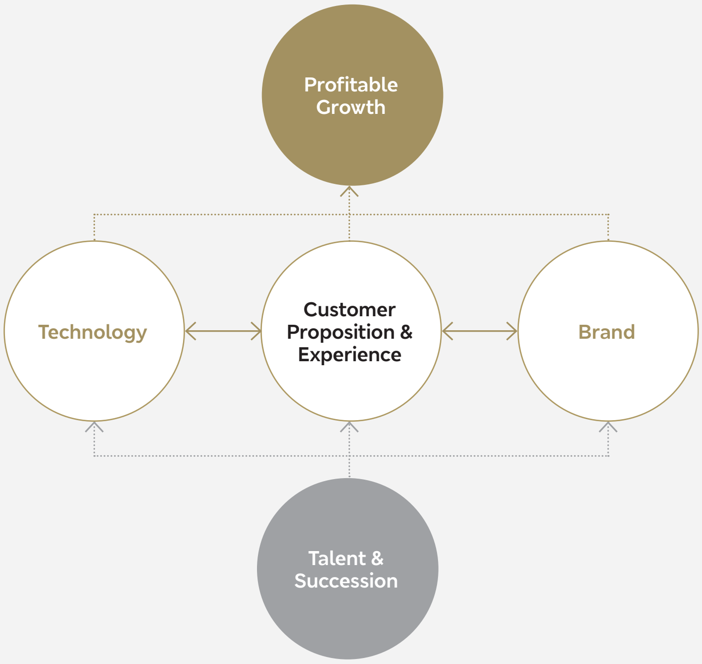
The details of our principal risks and uncertainties and the key mitigating activities in place to address them can be found on pages 32 and 33. We disclose those we believe are likely to have the greatest impact on our business at this moment in time and which have consequently been the subject of debate at recent Board or Audit Committee meetings. The year 2016/17 has been one of change and this is reflected in the year-on-year evolution of the principal risks and uncertainties.

The Company is exposed to a wide range of risks in addition to those listed. These are monitored for any increase in likelihood or impact and to ensure that appropriate mitigations are in place.

While our capacity to influence external risks is often limited, we recognise the importance of operating a business model that has the potential to flex and adapt to a changing environment. For example, the consequences of the UK's decision to leave the European Union will directly impact our business in a variety of ways. While we have already been affected by the depreciation of sterling, other risks are not yet fully quantifiable. Potential risks could include trade tariffs, higher taxation and limits to the free movement of people; all will demand a proactive response as the implications are better understood. We have created a working group to monitor the changing risk profile. Economic uncertainty and socio-political unrest also fall under this umbrella of external risk.

RISK INTERDEPENDENCY

We recognise that there is significant interdependency between our key risks. This diagram, based on an extract from our current Group Risk Profile, highlights how changes to one risk might impact those connected to it. By understanding the relationship between our key risks, we are better placed to ensure we are managing them appropriately and to understand our broader risk exposure. This is especially important when assessing the Company's long-term viability.



The following is an illustrative example of a potential scenario:

In order to drive long-term **Profitable Growth**, we need to ensure that we proactively manage a number of our principal risks and uncertainties. We must offer and deliver a **Customer Proposition & Experience** that is competitive and reliable across all channels, keeping pace with changing consumer behaviours and enabling us to leverage growth opportunities as they arise. In addition, our **Brand** needs to evolve with consumer lifestyles and attitudes, ensuring that it resonates with customers and remains relevant as they move from one life stage to the next. To be able to realise growth opportunities, we need to identify, keep pace with and embrace developments in **Technology**. This will enable us to both meet and exceed customer expectations, while ensuring that our business remains innovative, resilient and flexible. All of these aims are ultimately underpinned by the strength of our people. Through effective management of **Talent & Succession**, we can ensure our people are best set up for success to deliver business objectives as they evolve.

OUR APPROACH TO ASSESSING LONG-TERM VIABILITY

The UK Corporate Governance Code requires us to issue a 'viability statement' declaring whether we believe the Company is able to continue to operate and meet its liabilities, taking into account its current position and principal risks. The overriding aim is to encourage directors to focus on the longer term and be more actively involved in risk management and internal controls.

The Board is required to assess the Company's viability over a period greater than 12 months. The increased levels of uncertainty within the global economic and political environment and the macro-economic challenges being experienced within the retail sector, mean the Board continues to believe a three-year period is appropriate for business planning, measuring performance and remunerating at a senior level. Our assessment of viability therefore continues to align with this three-year outlook.

The process adopted to assess the viability of the Company involves collaborative input from a number of functions across the business to model severe but plausible scenarios in which a number of the Group's principal risks and uncertainties materialise within the period of the three-year plan.

We have modelled scenarios which group together principal risks where we believe interdependencies exist between the risks, in addition to scenarios where unconnected risks occur simultaneously. The scenario with the most significant adverse impact was reviewed against the current and projected liquidity position to conclude on the Company's viability. The assessment also took account of additional potential mitigations available in the event of further downside factors, including a reduction in capital expenditure and reduced returns to shareholders. The Audit Committee reviews the output of the viability assessment in advance of final evaluation by the Board.

In assessing viability, the Board considered a number of key factors, including our business model see pages 12 and 13, our strategy see page 9, risk appetite see page 30 and our principal risks and uncertainties see pages 32 and 33. These have been reviewed in the context of our financial plans, specifically the annual budget and three-year plan. The directors also satisfied themselves that they have the evidence necessary to support the statement in terms of the effectiveness of the internal control environment in place to mitigate risk.

In making the statement, the directors have applied the following assumptions in preparing the scenarios:

- → Bonds maturing during the assessment period will be repaid through our existing bank facilities.
- → The actions included in our plan to grow sales are not fully realised or are offset by lower than expected market growth.
- → The actions included in our plans to mitigate input cost increases that we expect are not delivered in full or the input cost increases are greater than expected.
- → The UK government's notification of its intention to exit the European Union will have adverse financial impacts, including input cost inflation from increased tariffs and a further weakening in sterling, as well as reduced UK consumer spending.

The Board's assessment is that M&S is a viable business. The viability statement can be found on page 83.

RISK MANAGEMENT CONTINUED

Our Group Risk Profile evolves as changes in circumstances elevate risk, mitigating activities reduce net risk over time, or as new risks emerge. As a result of our new strategy, our business has undergone considerable change during the year, affecting our people and operations. This has significantly influenced the risks reflected in the Group Risk Profile, which forms the basis of the principal risks and uncertainties disclosed below.

PRINCIPAL RISKS AND UNCERTAINTIES

RISK	DESCRIPTION	CURRENT CONTEXT	MITIGATING ACTIVITIES
1 (No material change to risk)	**CLOTHING & HOME RECOVERY** **Our future performance will be impacted if we fail to meet customer expectations.** As we continue to reassert our Clothing & Home credentials, we are focused on ensuring that product relevance, pricing and quality meet customer expectations. Meeting our customers' needs in all respects is key to driving improved performance in an increasingly competitive market.	Early signs of improved performance are being seen in Clothing & Home following ongoing efforts to strengthen product style and quality. Irrespective of this, there is no room for complacency and achieving recovery and further growth of our Clothing & Home business remains a key priority.	→ Clothing & Home strategy and supporting workstreams in place to drive sales, target market share, control costs and drive profitability. → Monthly monitoring and challenge of delivery against strategy and performance indicators. → Continued focus on product quality and style, including adherence to our Clothing Quality Charter. → Ongoing engagement through customer panels and our Customer Insight Unit.
2 (No material change to risk)	**FOOD SAFETY AND INTEGRITY** **A food safety or integrity related incident occurs or is not effectively managed.** Our brand is based on trust and our customers have high expectations of both the quality and integrity of our food. It is of paramount importance that we effectively manage safety and integrity, especially as we continue to grow our global food business.	While we set our own exacting standards, the external pressures facing the food industry are continually evolving. Fraudulent supply chain behaviour, supplier cost pressures, innovation demands and stringent regulatory requirements are just some of the contributors to this risk.	→ Dedicated Food Technology team responsible for ensuring products are safe for consumption through rigorous controls and processes. → Long-established store, supplier and depot auditing programme in place. → Visible response to emerging customer concerns. → Proactive horizon scanning for future issues, including focus on fraud and adulteration. → Crisis management plan in place.
3 (Evolved from prior year)	**CORPORATE RESPONSIBILITY** **Our reputation as a sustainable retailer relies on our ability to meet our social responsibility agenda and stakeholder expectations.** Our sustainability credentials have historically been a key differentiator in the retail market. As our peers place greater focus on this and the regulatory environment continues to develop, it is essential that we continue to evolve our aims, maintain strong ethical standards and meet stakeholder expectations.	Our business values and practices are being influenced by a broader range of factors than ever before, including modern slavery and human rights. It is essential that our commitment to our ethical standards remains at the forefront of our behaviours, especially during a period of significant change.	→ Continued commitment to and development of Plan A objectives to allow risks to be identified, mitigated and monitored. → Overarching governance of processes through Plan A leadership. → Mature supplier ethical auditing programme, including independent third party auditors, across our Clothing & Home and Food businesses. → Policy on supplier selection processes. → Business-wide human rights policy and ownership. → Updated Global Sourcing Principles to incorporate requirements of Modern Slavery Act. → Signatory to United Nations Global Compact principles covering human rights, the environment and ethical behaviour. → Membership of the Ethical Trading Initiative.
4 (No material change to risk)	**INFORMATION SECURITY (INCLUDING CYBER)** **We experience a major information security breach.** Our business, and society, continues to be subject to external threats to security – including external hackers and viruses, physical security attacks or sensitive data being lost or accessed without authorisation.	Experiences across the corporate landscape have continued to highlight the real threat of cyber and physical attacks. The external threat profile is ever changing, becoming more sophisticated and more unpredictable. In addition, regulatory responsibilities in relation to data protection are becoming increasingly stringent, including the implementation of the General Data Protection Regulation from 2018.	→ Established security controls, including policies, procedures and use of security technologies. → Dedicated Head of Data Governance. → Data Governance Group in place. → Dedicated Corporate Security team with ongoing focus on improving physical security environment. → Dedicated Head of Cyber Security, leading a team of cyber security experts and analysts, with 24/7 monitoring and defence tools. → Third party cyber maturity assessment performed. → Ongoing monitoring of developments in cyber security threats, engaging with third party specialists as appropriate. → Control of sensitive data through limited and monitored access and the roll-out of systems with enhanced security. → Specific team dedicated to managing security requirements for M&S.com.
5 (Evolved from prior year)	**TECHNOLOGY** **To support future profitable growth, we need to keep pace and develop our technology capability.** Our business needs to identify, keep pace with and embrace developments in technology. This will encompass a range of technology demands driven by the needs of our customers, deployment of tools that promote effective and flexible working and maintaining an overarching IT infrastructure that enables resilient business delivery.	The ever-increasing importance of technology in meeting customer needs, successfully growing our business and supporting our people means this remains an area of change and focus.	→ Digital lab in place developing new technology-enabled solutions. → Proactive simplification of IT infrastructure through clearly defined technology roadmaps for all business areas. → Structured deployment of Smarter Working principles and enabling technologies. → Overall review of future IT strategy under way.

Risk key
Nr New risk · Evolved from prior year · No material change to risk

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

RISK	DESCRIPTION	CURRENT CONTEXT	MITIGATING ACTIVITIES
6	**CUSTOMER PROPOSITION & EXPERIENCE** **Our performance and reputation will be impacted if we fail to deliver a competitive and reliable customer proposition and experience across all channels.** Notwithstanding the growth delivered and expected to continue in our M&S.com business, we need to ensure that we meet expectations however our customers choose to shop or have their order delivered.	Our business recognises the need to deliver a reliable and competitive customer proposition across all channels to keep pace with changing consumer behaviours, drive performance and leverage growth opportunities.	→ Appointed dedicated Head of Customer Experience. → Omnichannel approach adopted to drive consistent experiences online and in store. → Proactive monitoring of social media to observe and respond to trends in customer experience. → Further integration of M&S.com functions within core teams to drive consistency across all channels. → Robust business continuity plans, incident reporting and management procedures in place across all channels. → Ongoing review of future strategic opportunities to meet customer needs.
7 Nr	**TALENT & SUCCESSION** **We need to attract, develop, motivate and retain the right individuals to achieve our operational and strategic objectives.** Effective talent management is essential to deliver current and future business requirements. We recognise the importance of both developing internal talent and successfully integrating external hires.	Our people continue to be a key pillar of our business and ensuring that the right people are in the right roles is a significant enabler to leveraging performance and growth.	→ Completion of top tier talent review. → Review of cross-Group talent management processes under way. → Third party review completed to help support and develop skill set of senior leadership group. → Targeted development programmes in place. → Clear line manager responsibility for succession planning supported by appropriate people forums. → Ongoing focus on enhancing recruitment processes across the business.
8	**MARGIN** **Sourcing or cost pressures impact our margin performance.** While our business continues to face challenging foreign currency headwinds, other factors place significant pressure on margin performance. These include the availability of raw materials and pricing strategies in the context of the overall retail market.	Ongoing sourcing and cost pressures are placing increasing focus on our margin performance and the need to further evolve our sourcing strategies and ways of working in response to this.	→ Clearly defined margin targets across the business with performance monitored and reported to management. → Comprehensive sourcing plans in place for key products/suppliers. → Currency strategy to actively manage foreign exchange rate fluctuations. → Ongoing monitoring of pricing strategy in the context of the wider retail market. → Strong engagement with buying teams to communicate fluctuations in raw material prices and foreign exchange rates. → Enhanced Clothing & Home product development system in place, improving efficiency to leverage margin growth.
9	**BRAND** **Our brand needs to evolve with consumer lifestyles and attitudes for us to successfully attract and retain customers.** We need to ensure that we recruit, engage and retain customers through the ongoing relevance of the M&S brand.	To drive future performance and leverage opportunities, our brand needs to stay relevant and appeal to customers as they move from one stage of life to the next. We recognise the importance of ensuring that the M&S brand resonates with customers of differing lifestyles and outlooks.	→ Focus on clearly defined brand purpose to Make Every Moment Special, connecting with customers through our Spend It Well campaigns with greater focus on lifestyle and outlook. → Engagement with customers through our Customer Insight Unit and focus groups, providing rich insights and quantifiable data. → Strengthened Customer Insight Unit leadership. → Continued investment in the development of Sparks.
10 Nr	**UK STORE ESTATE** **We fail to maintain and develop a UK store estate that is relevant to future customer preferences and supports business performance.** As consumer behaviours continue to evolve, our physical store estate planning must align to our business strategy, providing better range authority in more convenient locations, while generating higher space productivity.	Stores are, and will remain, a critical part of our customer focus alongside a fully integrated online offer. We recognise the importance of proactively managing our UK store estate to ensure that our space is relevant to the customer, while supporting strong business performance and profitable growth.	→ Full review of our UK store portfolio during 2016/17. → Multi-year programme under way to improve our estate to better meet customers' needs. → Strengthened property capabilities, including appointment of senior external hires. → Cross-business Steering Group and working groups set up to manage and monitor the store estate change programme. → Property Board approval process and governance framework in place. → Continued expansion of our Simply Food business alongside improvements to the UK store estate.
11	**PROFITABLE GROWTH** **To drive profitable growth our business needs to innovate as well as successfully deliver additional space and strong like-for-like performance.** To generate long-term shareholder value, we need to identify alternative revenue streams and opportunities to leverage growth, while also ensuring that we drive the performance of our existing products and services.	We must successfully drive innovation and diversification to secure future profitable growth for our business.	→ Customer Insight Unit provides horizon scanning of changes in consumer behaviour. → Review of innovation processes underway. → New operating model implemented to drive efficiency and effective decision-making. → Business restructure completed to help drive our business objectives and strategic aims. → Ongoing focus on establishing foundations for new paths to growth.
12 Nr	**THIRD PARTY MANAGEMENT** **To drive value for our business we need to successfully manage and leverage our third party relationships and partnerships.** Our business relies on a number of significant third party relationships. To ensure that we continue to drive value for the business, it is essential that we work collaboratively, clearly define requirements and proactively manage our third parties.	A significant level of expertise and effort is required to effectively manage third parties. As our business model evolves, we need to maintain focus on this area to continue to drive commercial and cost benefits.	→ Ongoing Board-level review of key relationships and partnerships. → Dedicated personnel managing key contracts. → Defined service level agreements and key performance indicator standards in place for key contracts. → Defined contract governance and oversight standards. → Strong engagement with in-house Legal and Procurement teams. → Periodic, independent review of performance.

The risks listed do not comprise all those associated with Marks & Spencer and the **numerical referencing does not denote an 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. These less material risks are kept in view in case their likelihood or impact should show signs of increasing. Further information on the financial risks we face and how they are managed is provided on pages 118 to 123.

GOVERNANCE

CHAIRMAN'S GOVERNANCE OVERVIEW

The importance of considering a **company's responsibilities to a broad stakeholder group** has long been core to the M&S culture, values and decision making processes.

ROBERT SWANNELL CHAIRMAN

As I highlighted earlier in this report, this has been a year of considerable change for the Company. With the appointment of Steve Rowe as CEO, the Board undertook a comprehensive review of all aspects of the business to ensure clarity around our customers and our brand positioning, our strategy and business model, our people, our store portfolio, our offices and our assets.

This review, and the Board debate throughout the year, resulted in a number of significant decisions for the business. The Board was acutely aware that these would affect a broad range of our stakeholders. While we sought to ensure that our decisions were taken in a way that was fair and consistent with our values, we recognised the importance of balancing these with the need to support the long-term future of the business. The Board recognised that the consequences of its decisions would lead to significant adjustments to the business and to our financial position this year, but we believe that these were essential to re-establish the foundations of the business to deliver sustainable performance and build an organisation that is fit and relevant for the longer term. The Board and Audit Committee's debate and associated judgements are covered on pages 40-41 and 48-51 of this report.

BOARD ACTIVITIES AND CONSIDERATION OF ALL STAKEHOLDERS

The tenets of Lord Sieff's words about the importance of considering a company's responsibilities to a broad stakeholder group, which I quoted earlier in the report and which pre-date by decades the s.172 directors' duties of the Companies Act 2006, have long been core to the M&S culture, values and decision-making.

These were particularly evident in our deliberations around the introduction of an M&S living wage and the ambition to deliver fairer pay for our store colleagues in a way that was true and relevant to M&S. This led us to go beyond the National Living Wage and establish ourselves as one of the best employers in the market. We had significant debate around the closure of the long-standing defined benefit pension scheme, but recognised that this was critical to ensure a fairer reward framework for all our colleagues.

We spent a lot of time considering the consequences of the closures within our international businesses to ensure we could establish a structure and format which would be stronger and more relevant for our customers and markets, and a more profitable business with foundations for growth. We also reviewed the configuration of our UK store estate to ensure we could establish a footprint to meet future customer needs. We debated the necessary changes and restructuring within our offices to support our future plans. In each such discussion, the Board carefully considered the impact of its decision on our teams, our customers, the communities in which we trade, our shareholders, our supply base and our Plan A aspirations.

EMPLOYEE AND RETAIL SHAREHOLDER VOICE

We are pleased to have established regular Board sessions for employee insight. The feedback provided during our dedicated Board sessions by the chairs of both the Business Involvement Group ('BIG'), which represents the interests of all our 85,000 colleagues across the business, and of our Defined Benefit Pension Scheme, was invaluable in ensuring the Board was able to fully consider the views of these vital stakeholders through the period of change. We were grateful for their candid and open feedback, which enabled the Board to appreciate fully the potential impact on those affected.

We also trialled our first Private Shareholder Panel. The objective was to give our private shareholders additional access and information, as is provided to our major institutional shareholders. The candour and insights provided by these panel discussions were helpful in ensuring we were listening to this important stakeholder group. The success of these trial panels led to the formal launch of our Private Shareholder Panel, which will form an active part of our stakeholder engagement programme. Details on this and our broader stakeholder engagement are provided on pages 44 to 45. This illustrates how we have considered, listened and engaged with all these stakeholders.

RISK AND CONTROLS

The progress made on our risk debate and understanding of risk appetite in previous years helped ensure the Board's decision-making was supported by the right discussions and considerations. The enhanced level of risk debate and greater involvement of the Operating Committee was also critical in ensuring that appropriate monitoring and mitigations were embedded to support the proposals under discussion.

The Board spent time debating the market environment and the potential impact of the vote to leave the European Union. It continues to assess the implications of Brexit for our customers, communities and the business, and the impact of currency movements on the business and our supply base.

We also undertook a thorough review of our cyber environment to ensure that we have appropriate data and information governance processes and controls, ecommerce defences, proactive security and strong incident management processes across the business. While the Audit Committee will continue to monitor business processes and provide assurance over controls, the Board considers data governance and cyber to be so significant that it will review this at least twice a year.

TALENT, DEVELOPMENT AND SUCCESSION

In addition to the strategic debate, the Board and Nomination Committee also focused on ensuring we had the right talent in our business to support our plans. Senior succession discussions have long featured on the Board agenda, but we took this substantially further this year to include a comprehensive review of our people capabilities and specific development needs against the future requirements of our business. The Board reviewed assessments for over 100 of our senior leaders in the business and discussed their leadership qualities, strengths, areas for development, and medium and long-term succession plans to ensure that we have the right skills, career paths and understanding of our talent to support our future business growth.

As highlighted earlier, following the appointment of Steve Rowe as CEO and the announcement of our plans to build a simpler and more relevant M&S, I considered it was the right time to deal with my own succession and for the business to appoint a new Chairman. So, in December 2016, I informed the Board that I intended to retire as Chairman during 2017 after six years in the post.

I am grateful to Vindi Banga, our Senior Independent Director, for leading such a rigorous process for the Nomination Committee to appoint my successor. We are delighted that Archie Norman will succeed me in September 2017. Overviews of the recruitment process undertaken by the Nomination Committee and the induction programme being undertaken by Archie are provided on page 39. This programme is extremely comprehensive and will ensure that he has an extensive insight into our business, our colleagues and stakeholders prior to taking up his appointment as Chairman.

When I joined M&S as Chairman I made it clear that I regarded effective succession planning as a vital responsibility for both me and the Board. I am delighted that with Steve and Archie's appointments this aspect has been successfully achieved in a rigorous way. I know that succession planning and the development of talent at M&S will remain very high priorities of the Board.

BOARD OVERSIGHT AND MONITORING

The Audit Committee played a key role in ensuring that there was appropriate challenge and governance around the accounting treatment of the decisions taken in the year and ensuring robust risk management, controls and assurance processes were in place. The Committee continues to closely monitor the management of our cyber and data governance processes, health and safety and business continuity plans for our UK and international operations. The Committee's activities, considerations and judgements are set out on pages 48 to 50.

Fairness and pay has featured strongly in the Board's debate this year. To support leadership and talent within our business, the Remuneration Committee has reviewed our remuneration framework, measures and targets. This review was particularly topical given the Business, Energy & Industrial Strategy (BEIS) Green Paper on corporate governance reform earlier in the year. The Committee held a number of discussions with shareholders on framework design during the year. It also reviewed and updated the Remuneration Policy to ensure it remains both in line with best practice and relevant to our business. It will be put forward for formal shareholder approval at the AGM in July 2017. The Committee's activities and its considerations on remuneration, along with our Remuneration Policy, are outlined in detail on pages 54 to 78.

In line with the requirements of the Corporate Governance Code, the Board was independently evaluated during the year. We were pleased that, overall, the Board has made significant progress since the last external review in 2015, especially in relation to the quality of Board debate and decision-making, Board papers and process. The findings of the review and the action plans for the year ahead are set out on page 42 of this report.

We have had to take some bold and tough decisions to ensure M&S is set up for the future. The Board made these changes as they are the right and relevant thing to do. From a strong core set of well-established timeless values, we have sought to ensure fairness, integrity and rigour with each decision for all our stakeholders. We recognise that the business has had to deliver a significant scale of change this year, but the feedback from our stakeholders and the early progress we are seeing encourages us to continue to be bold, confident, remain on the front foot, and embrace the challenges ahead.

ROBERT SWANNELL CHAIRMAN

THIS REPORT'S KEY FEATURES

Over the next few pages we look at the Board, its role, performance and oversight. As in previous years, we provide detail on the Board activities and discussions during the year (pages 41 and 42), the actions arising from these and the progress made against them. We also provide insight on: director independence; effectiveness and our Board evaluation; succession planning; and induction and ongoing development.

Governance at M&S is an important element of our Board environment. To support how we do business and how we serve our stakeholders it needs to be relevant, authentic and meaningful. In line with previous years, we have used the key themes of the Code to articulate the Board's activities during the year:

- → **Leadership and effectiveness** – pages 36 to 43 and 46 to 47.
- → **Accountability** – pages 30 to 33 within the Strategic Report and pages 48 to 52 in the Directors' Report.
- → **Our stakeholders: how we listen and engage** – pages 44 to 45.
- → **Remuneration** – pages 54 to 78.

Information on the governance of our Pension Scheme is provided on page 53.

The required governance and regulatory assurances are provided throughout this report reflecting their relevance to the business. We provide insight into how governance supports and protects the M&S business and our stakeholders in a practical way. Where information would previously have been located within the Directors' Report, and has now been incorporated into the Strategic Report, a list of page references is available within the 'Other Disclosures' section on page 79.

Every year we review and benchmark our Governance Framework against best practice. The framework 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.**

UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code 2016 (the "Code") is the standard against which we measured ourselves in 2016/17. A copy of the Code is available from the Financial Reporting Council's website.

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

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

GOVERNANCE SUMMARY

Our compliance with key areas of the Code is summarised as follows:

- → **Independence** Over half of our Board comprises independent non-executive directors and the composition of all Board Committees complies with the Code.
- → **Senior Independent Director** Our Senior Independent Director is Vindi Banga.
- → **Accountability and election** Clear separation of duties between Chairman and CEO roles, all the directors are to stand for annual re-election.
- → **Evaluation** An externally facilitated performance evaluation of the Board and its Committees was undertaken during the year.
- → **Attendance** The directors have all attended an acceptable level of Board and Committee meetings.
- → **Experience** The Audit Committee chairman met the specific requirements with regard to recent and relevant financial experience throughout 2016/17.
- → **Auditor tenure** We changed our auditor in 2014/15, following a thorough tender process.
- → **Non-audit policy** This is disclosed on our website, along with the limited non-audit work undertaken during 2016/17.
- → **Auditor appointment** We disclose our external auditor appointment policy on our website.
- → **Internal Audit** Details on the Internal Audit function are provided within this report.
- → **Performance-related pay** A significant part of performance-related pay is delivered through shares. Our reward framework is simple, transparent and designed to support and drive our business strategy.

OUR BUSINESS
OUR PERFORMANCE
GOVERNANCE
FINANCIAL STATEMENTS

LEADERSHIP AND EFFECTIVENESS

OUR BOARD

The Board is responsible for the stewardship of the Company, overseeing its conduct and affairs to **create sustainable value** for the benefit of its shareholders.

CHAIRMAN

Robert Swannell
Chairman

Appointed:
Chairman in January 2011, Non-Executive Director in October 2010

Skills, competence and experience:
Robert is a chartered accountant and a Barrister. He has extensive government and regulatory experience and possesses a wealth of knowledge of many different business areas, banking and the City, acquired over a 33-year career in investment banking. He has significant experience as a director and chairman across various sectors, and his leadership in the area of governance promotes robust debate and drives a culture of openness in the boardroom. Robert will retire from the Board on 1 September 2017.

Other roles: Chairman of UK Government Investments, Director of the Investor Forum, Trustee of Teach First, Advisory Board Member of Sutton Trust and Spencer Stuart.

EXECUTIVE DIRECTORS

Steve Rowe
Chief Executive

Appointed:
Chief Executive in April 2016

Skills, competence and experience:
Steve joined M&S in 1989 and progressed through a variety of roles within store management before moving to Head Office in 1993. He has worked in senior roles across various areas of the business, including Director of Home, Director of Retail, and Director of Retail and Ecommerce. He was appointed to the Board as Executive Director, Food in 2012, moving to the role of Executive Director, General Merchandise in July 2015. He was appointed as CEO on 2 April 2016. During his first year in the role he has laid solid foundations for a more relevant, customer-centric M&S, including the repositioning of Clothing & Home and the continued growth of Food. More information about Steve's work during the year can be found in the Chief Executive's Strategic Update starting on page 8.

Helen Weir
Chief Finance Officer

Appointed:
April 2015

Skills, competence and experience:
Helen is a qualified accountant, with over 25 years' experience in the finance and retail sectors. She brings substantial strategic financial experience and a wealth of significant retail and consumer experience to the Board. Helen has strong listed company experience having been Group Finance Director, Executive Director and Non-Executive Director on the Board of a number of major companies. Helen is a Fellow of the Chartered Institute of Management Accountants and was awarded a CBE for services to Finance in 2008.

Other roles: Trustee of Marie Curie, Non-Executive Director of the Rugby Football Union.

Patrick Bousquet-Chavanne
Executive Director, Customer, Marketing & M&S.com

Appointed:
July 2013

Skills, competence and experience:
Patrick brings over 25 years of extensive experience in the consumer goods industry. His valuable strategic insight is supported by his experience in developing and marketing brands globally and broad knowledge of enhancing business performance and customer experience in a multi-channel environment. Patrick played a key role in creating the new Masterbrand marketing strategy across Food and Clothing & Home, and continues to lead the digital transformation of M&S and the global growth of M&S.com. Patrick assumed overall responsibility for Customer Experience, M&S.com and Plan A in May 2016.

Other roles: Non-Executive Director of Brown-Forman Inc.

INCOMING CHAIRMAN

Archie Norman
Chairman Designate

Proposed appointment date:
1 September 2017 Archie brings a breadth of experience with an extensive track record in retail and brands. He was instrumental in transforming a number of major British businesses including Kingfisher, Asda and Energis. Archie is an experienced chairman and board director having served as Chairman of ITV, Lazard, and Hobbycraft and Deputy Chairman of Coles Limited. In 2016 he was appointed by the Department for Business, Energy & Industrial Strategy as its Lead Non-Executive Board member. Further information about Archie's skills, experience and suitability for the role of Chairman can be found under 'Succession & Induction' on page 39.

Other roles: Adviser to the Board of Wesfarmers Limited, Director of Target Pty Limited, Chairman of Lazard and Hobbycraft, Deputy Chairman of Coles Limited, Lead Non-Executive Board Member of BEIS.

KEY TO COMMITTEES

- (A) Audit
- (N) Nomination
- (R) Remuneration
- ● Committee Chair

Full biographical details of each director are available on **marksandspencer.com/thecompany**

FIND OUT MORE

See p43 for **Governance and Board structures**

See p40-41 for **Board activities in 2016/17**

See p43 for **Board roles and responsibilities**

INDEPENDENT NON-EXECUTIVE DIRECTORS

Vindi Banga
Senior Independent Director

Appointed:
Senior Independent Director in March 2015, Non-Executive Director in September 2011

Skills, competence and experience:
Vindi has extensive consumer brand knowledge and global business experience, acquired over 33 years in senior roles within the consumer goods industry. His in-depth knowledge of UK and international trade and industry provides valuable insight into business and enterprise across the globe. He has strong experience as a board member of other listed companies and is the recipient of the Padma Bhushan, one of India's highest civilian honours.

Other roles: Partner at Clayton Dubilier & Rice, Director of Kedaara Capital Investment Managers Ltd, Kedaara Capital I Ltd and Kedaara Holdings Ltd, Non-Executive Director of Thomson Reuters and GSK, Chairman of the Mauser Group and the CBI's Economic Growth Board, member of the Governing Board of the Indian School of Business.

Miranda Curtis
Non-Executive Director

Appointed:
February 2012

Skills, competence and experience:
Miranda's substantial experience of the international consumer and technology sectors, and extensive knowledge of global industry, provides a valuable contribution to the Board. During her 20-year career with Liberty, Miranda led the company's investments in digital distribution and content operations across continental Europe and Asia-Pacific, most notably in Japan. Miranda will retire from the Board on 1 February 2018.

Other roles: Non-Executive Director of Liberty Global plc, Lead Non-Executive Director of the Foreign and Commonwealth Office, Trustee of the Institute for Government, Deputy Chair of the Royal Shakespeare Company, Deputy Chair of Garsington Opera, Chair of African girls' education charity, Camfed.

Andy Halford
Non-Executive Director

Appointed:
January 2013

Skills, competence and experience:
A chartered accountant, Andy has a strong finance background and significant recent and relevant financial experience gained from CFO positions in global listed companies. His extensive knowledge of the UK and international consumer market provides the Board with valuable strategic insight. Andy is a member of the Business Forum on Tax and Competitiveness and a Fellow of the Institute of Chartered Accountants in England and Wales.

Other roles: Chief Financial Officer of Standard Chartered plc.

Alison Brittain
Non-Executive Director

Appointed:
January 2014

Skills, competence and experience:
Alison brings extensive financial and commercial experience to the Board, combined with considerable knowledge of running large-scale consumer businesses. She is Chief Executive of hospitality group Whitbread, and was Group Director of Lloyds Banking Group's Retail Division until July 2015. She has held a number of senior positions in the financial sector, particularly in retail, and has valuable regulatory insight. Alison has an MBA from Cambridge University's Judge Institute.

Other roles: Chief Executive of Whitbread plc, Trustee of the Prince's Trust Council.

Richard Solomons
Non-Executive Director

Appointed:
April 2015

Skills, competence and experience:
Richard brings strong commercial, financial, consumer, branding and global experience to the Board. His extensive international retail and consumer experience, plus his role as CEO of a global business, provide valuable insight. Richard has held a number of senior roles at IHG and is currently Chief Executive Officer, a role from which he will retire on 1 July 2017. Richard was integral in shaping and implementing IHG's asset-light strategy, which has helped the business grow significantly since it was formed in 2003, as well as supporting the return of $12.8bn to shareholders.

Other roles: Chief Executive Officer of IHG (retiring 1 July 2017), Governor of the Aviation, Travel and Tourism Industry Community of the World Economic Forum, Member of the Industry Real Estate Financing Advisory Council.

Andrew Fisher
Non-Executive Director

Appointed:
December 2015

Skills, competence and experience:
Andrew has substantial experience of the international consumer and technology sectors and has led the successful growth of a number of technology-focused enterprises over the past 19 years. He is Executive Chairman of Shazam Entertainment Limited, having previously served as Chief Executive Officer since 2005. Prior to that, Andrew was European Managing Director of Infospace Inc (now Blucora) and founder and Managing Director of TDLI.com. He was a member of the Advisory Board to the Secretary of State for the Review of the BBC Charter and was awarded an OBE for services to the Digital Economy in 2016.

Other roles: Executive Chairman of Shazam Entertainment Limited, Non-Executive Director of MoneySupermarket.com Group plc.

RETIREMENTS IN 2016/17

Laura Wade-Gery
Executive Director, Multi-channel

Retired:
12 September 2016

Laura stepped down from the Board after five years of service during which she was instrumental in the improvement and modernisation of our ecommerce and multi-channel capabilities.

GROUP SECRETARY

Amanda Mellor
Group Secretary and Head of Corporate Governance

Appointed:
July 2009

OUR BOARD CONTINUED

BOARD COMPOSITION, ROLES AND ATTENDANCE AS AT YEAR END

CHAIRMAN	ATTENDED	MAX POSSIBLE	INDEPENDENT	RESPONSIBILITY IN 2016/17	LINKED TO REMUNERATION
Robert Swannell	9	9		Board governance and performance, shareholder engagement	
EXECUTIVE DIRECTORS					
Chief Executive Steve Rowe	9	9		Strategy and Group performance	✓
Chief Finance Officer Helen Weir	9	9		Group Financial Performance, Property, IT and Clothing & Home distribution	✓
Executive Director Patrick Bousquet-Chavanne	9	9		Customer, Marketing and M&S.com	✓
Executive Director Laura Wade-Gery	N/A	N/A		Laura was on maternity leave from September 2015 and was therefore not expected to attend Board meetings during this time. She retired from the business in September 2016.	
NON-EXECUTIVE DIRECTORS					
Vindi Banga	9	9	✓	Independent non-executive directors assess, challenge and monitor the executive directors' delivery of strategy within the risk and governance structure agreed by the Board. As Board Committee members, they also review the integrity of the Company's financial information, recommend appropriate succession plans and monitor Board diversity.	
Alison Brittain	9	9	✓		
Miranda Curtis	9	9	✓		
Andrew Fisher	9	9	✓		
Andy Halford	9	9	✓		
Richard Solomons[1]	8	9	✓		

This table provides details of scheduled meetings held in the 2016/17 financial year.

1. Richard Solomons was unable to attend the meeting on 20 May due to personal commitments which had been booked prior to the meeting being rescheduled for this date.

See **Board Activities** on p40-41

BOARD MEETINGS

The Board held nine scheduled meetings during the year, and individual attendance is set out above. Sufficient time is provided at the start and end of each meeting for the Chairman to meet privately with the Senior Independent Director and the non-executive directors to discuss any matters arising.

INDEPENDENCE OF DIRECTORS

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

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

None of the non-executive directors has served more than six full years on the Board.

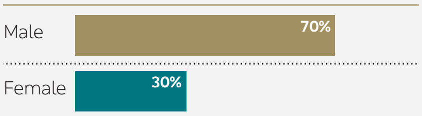
The Board considers that all of the non-executive directors bring strong independent oversight and continue to demonstrate independence. The Board recognises the recommended term within the UK Corporate Governance Code. It is mindful of the need for suitable succession, and therefore maintains a clear record of the time each non-executive has served the Company and the skill set that each provides.

See **details and experience of each director** on p36-37

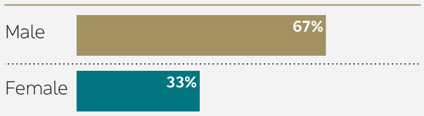
BOARD DIVERSITY

GENDER DIVERSITY 1 April 2017 (as at year end)

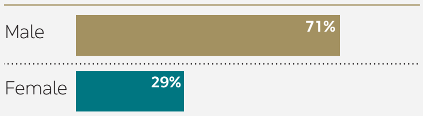
GROUP BOARD



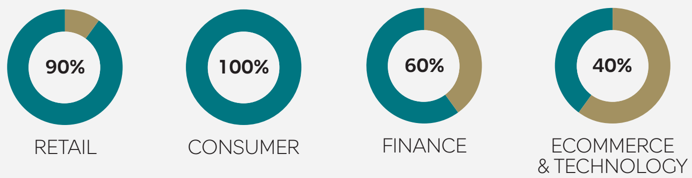
EXECUTIVE



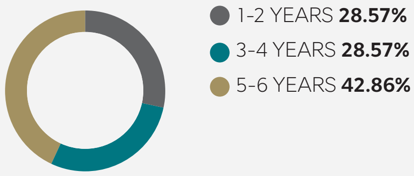
NON-EXECUTIVE



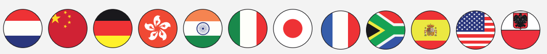
SECTOR EXPERIENCE



NON-EXECUTIVE DIRECTOR TENURE



INTERNATIONAL EXPERIENCE



LEADERSHIP AND EFFECTIVENESS

SUCCESSION & INDUCTION

CHAIRMAN RECRUITMENT

In December 2016 we announced that, after six years in the role, Robert Swannell intended to retire from the business in 2017. Robert committed to continue in his role until his replacement had been identified and had joined the business.

Following this announcement we commenced the process to recruit and appoint a new Chairman. The search was undertaken by the Nomination Committee (the "Committee") and led by myself as the Senior Independent Director. Steve Rowe was fully involved in the entire process.

The Committee had a number of discussions to scope out the key skills, experience, characteristics and requirements for the role. We then invited a selection of recruitment firms to participate in a selection process focusing on a series of key questions in order to identify the appropriate executive recruitment consultants to support our search. We received very thorough and comprehensive responses from each firm and, following further discussions, selected JCA. Aside from assisting with recruitment, JCA has no other connection to the Company.

Given the public profile of M&S the Committee did not consider it necessary to use open advertising for this role. The announcement of Robert's retirement had been made to the market in December and interested parties were able to contact either myself or other Committee members.

A structured timetable was adopted for the process and regular Committee discussions and updates held throughout. From a detailed understanding of our requirements and specification of the role, JCA put together an extensive range of potential candidates for the Committee's consideration. After much debate, this was narrowed down to a strong short list for interview. Shortlisted candidates met with the same members of the Committee to ensure consistency. Steve Rowe also spent significant time with the final candidates.

The Committee members and Steve were unanimous in their final selection of the new Chairman.

On 5 May 2017 we were pleased to announce the appointment of Archie Norman as Non-Executive Chairman with effect from 1 September 2017. Archie was an ideal match to our requirements for a strong retail background and significant board experience. He is one of the UK's most respected business leaders, with a proven track record in retail and business. He has been on the board of public companies on and off since 1986, when he became finance director of Kingfisher at the age of 32. He went on to gain experience as both a CEO and chairman of a number of well known listed companies including Asda and, more recently, ITV. The Committee believes he is well placed to support Steve and the team as they deliver the plan that is already underway.

VINDI BANGA SENIOR INDEPENDENT DIRECTOR

CHAIRMAN INDUCTION PROCESS

STAGE 1
Understand the M&S business

STAGE 2
Understand the M&S environment

STAGE 3
Meet the M&S teams

STAGE 4
Visit the M&S operations

Stage 1. Company structure and strategy: including Group structure, history, strategy, vision, key people, succession plans; Board procedures including governance framework and Code of Ethics and Behaviours; Board Committees, calendar, minutes, Board effectiveness reviews and action plans; finances and performance, operating plans, current KPIs and targets, operational overview of all business areas key relationships including suppliers and major contracts; Group Risk Profile and our approach to risk.

Stage 2. Industry and competitive environment: including customer trends; consumer and regulatory environment including governance and all relevant consumer and industry bodies, CSR environment and sustainability. **Sentiment and reputation:** including brand positioning and media profile; marketing campaigns; brand values; analyst and investor opinion, review of investor surveys, share register and voting history; key stakeholder relations including employees, customers, suppliers, service providers, opinion leaders; an overview of our remuneration policy and pensions.

Stage 3. Archie's programme will be supported by one-on-one meetings with management from Clothing & Home, Food, M&S.com, International, Retail, Finance, Property, Plan A, Marketing, Customer Insight Unit, Human Resources, Communications and Investor Relations, Internal Audit & Risk, Pensions, the Company Archive and the Governance Group.

Stage 4. He will visit a number of our stores with the Retail team as well as our distribution centre with the Logistics team. He will also meet with key investors and suppliers.

SENIOR SUCCESSION

The Operating Committee recently undertook a full talent and succession review of the top 120 senior roles within the business, plus the succession planning in place for these roles. As part of this, a benchmarking review was undertaken by Korn Ferry* for all relevant individuals.

This supported our talent agenda by providing:

- → A thorough benchmarking exercise of our talent versus the external market.
- → Additional feedback and insights for all senior individuals which, combined with our perspectives, are leading to robust development plans for all our leaders.
- → A catalyst for the broader M&S talent agenda, enabling us to adapt and simplify our talent processes for the wider organisation.

This extensive review was discussed by the Board as part of an ongoing drive to provide greater clarity and achieve a common understanding of talent within the business, and to baseline our talent data at a senior level. While it was recognised that there is still some room for improvement before our talent information is a true reflection of our overall talent health, themes are emerging that enable us to strengthen our capabilities in the near term.

Ongoing and effective talent management is key to achieving our strategic and operational objectives and this is clearly recognised by the Board, as reflected in the Risk Management section on page 33.

There is work outstanding to embed some of the identified core talent processes deeply in all parts of the organisation, as the principles of our new way of reviewing talent represent a cultural shift for M&S. These changes, although not always easy to make, are important if we are to create a sustainable, winning organisation.

* Korn Ferry is a market leading company that assists organisations in attracting, engaging, developing and retaining their people.

LEADERSHIP AND EFFECTIVENESS

BOARD ACTIVITIES

TOPIC	ACTIVITIES/DISCUSSION	ACTIONS ARISING	PROGRESS
Strategy	**Discussed strategic priorities across Food and Clothing & Home.**	→ Agree a new three-year plan focused on recovery and growth in Clothing & Home and growth in Food. → Focus on simplifying organisational structure and processes. → Deliver significantly greater focus on customers and drive improvements in our brand position.	→ Three-year strategic plan agreed. → Detailed implementation plans established and robust processes in place to manage and monitor their delivery. → Key risks and opportunities identified.
	Agreed the strategic plan for the UK store estate.	→ Assess the optimisation of the Clothing & Home network, based on practical and deliverable actions. → Deliver improved sales and profitability through enhancing the quality of our UK estate. → Continue to drive Food store roll-out programme.	→ Agreed expedited plan for reconfiguration of Clothing & Home space to be achieved over the next five years. → Agreed necessary actions and costs associated with delivery of the proposed strategy. → Roll-out of c.250 new Simply Food stores by 2019/20.
	Reviewed the Company's International operations and set strategy for the future.	→ Review performance and ownership structure of all International operations. → Retain our position as an international retailer and reaffirm our clear commitment to continued growth in international markets. → Develop strategy to deliver a sustainable International business built on a portfolio of profitable markets.	→ Decision taken to exit loss-making, wholly-owned retail businesses in specific regions, following completion of a thorough consultation process with colleagues in the affected markets. → Agreed the sale of three stores and head office in Romania to an existing franchise partner. → Agreed restructure of current franchise model to increase competitiveness in our chosen markets.
	Discussed the Group's capital structure and financial strategy, including capital investments, shareholder returns and the dividend policy.	→ Assess the medium-term capital and funding structure in light of the three-year plan. → Review the Company's cash flow position, dividend cover and enhanced shareholder returns policy in the context of the wider market and our agreed capital allocation priorities. → Continue investing in the business for growth, underpinned by strong investment disciplines.	→ Discussed the balance sheet strategy, capital efficiency and leverage position of the Group. → Continued strong cash generation and diligent management of costs. → Maintained a strong balance sheet, investment grade credit rating and a progressive dividend policy broadly twice covered by earnings. → Full year ordinary dividend of 18.7p, plus an additional special dividend of 4.6p paid in July 2016. → Shareholder returns programme put on hold during the year.
	Reviewed our technological capabilities and debated future requirements and areas for development.	→ Challenge and develop our current technological capabilities to enable further business growth. → Deliver solutions that build on the strategic investments in technology already made, with greater focus on user experience, simplification and use of more cost-effective technologies.	→ Conducted a full review of the skills, capabilities, systems and supplier landscapes needed to deliver the strategy over the next few years. → Substantial progress made through initiatives focusing on simplification, cost reduction and the future operating model. → Discussed potential risks and mitigating actions.
	Discussed the logistics strategy in Clothing & Home.	→ Consider the broader future of, and anticipated long-term changes to, logistics and distribution and how these might fit with the M&S business model of the future. → Agree plan for the development of the logistics network and infrastructure over the next three years. → Identify opportunities to maximise the potential of the Company's distribution centres, improving service and productivity.	→ All major building projects now complete. → Proportion of product handled through single tier logistics network increased. → Discussed the key initiatives included in the three-year plan, including operating model, systems upgrades and asset utilisation. → Robust challenge and discussion around the logistics network review, including planning processes and the key risks and assumptions made.
Values	**Discussed continued progress and evolution of Plan A.**	→ 107 total Plan A 2020 commitments. → Review progress made in 2016/17 and set priorities for 2017/18.	→ 64 achieved, 6 not achieved. → 25 on plan, 11 behind plan. → 1 commitment cancelled. → Strategic priorities for 2017/18 identified.
	Identified opportunities to improve our organisational culture and ways of working.	→ Ensure the Company has the optimal organisational structure in place to support our business strategy and drive growth.	→ Undertook a review of processes, activities, structures and costs. → Progress made in implementation of Smarter Working workstream to optimise use of office space.
Shareholder engagement	**Encouraged strong engagement with investors and other stakeholders.**	→ Actively support engagement opportunities.	→ Strengthened links between the business and its retail investors through the launch of our Shareholder Panel. → Largest shareholders invited to annual Governance Event hosted by the Chairman. → Reviewed independent report, from Makinson Cowell, covering major investors' views on our management and performance.
	Ensured shareholder feedback was reviewed and considered in advance of the AGM.	→ Specific issues raised by shareholders to be addressed in the Chairman's AGM statement.	→ Key topics raised by shareholders to be communicated together with an update on the Company's progress in these areas.

See **Board Effectiveness** on p42

TOPIC	ACTIVITIES/DISCUSSION	ACTIONS ARISING	PROGRESS
Governance & risk	**Discussed the evolving regulatory environment and the internal governance processes underpinning programmes and initiatives.**	→ Review the Company's internal policies, procedures and controls in respect of market abuse, market manipulation and insider dealing prior to implementation of the Market Abuse Regulation. → Assess controls over internal financial reporting processes to improve information flows. → Review key projects on completion and evaluate the end-to-end delivery process.	→ Internal systems and processes updated in line with new requirements. → Training on the new Market Abuse Regulation conducted at Board level and for employees across the relevant business units. → Identified and implemented enhancements to controls and processes relating to internal financial reporting. → Undertook comprehensive post-implementation reviews of key projects.
	Reviewed progress against the 2016/17 Board Action Plan.	→ Conduct an externally facilitated Board evaluation. → Obtain and evaluate director feedback on the processes, effectiveness and working of the Board and its committees.	→ Discussed the outcome of the Board evaluation conducted by an external facilitator, Ffion Hague of Independent Board Evaluation. → Agreed 2017/18 Action Plan with clear process for ongoing monitoring over the course of the year.
	Half yearly review of Group Risk Profile, covering core internal and external risks, risks driven by business change and areas of emerging risk.	→ Assess the effectiveness of the Group risk process. → Review completeness and ordering of the Group Risk Profile, including key risk movements, and consider appropriate mitigating activities. → Ongoing robust debate around risk tolerance and risk appetite.	→ Agreed a robust set of Group-level risks and mitigating activities, which are regularly monitored. → Debated key changes in risk severity and the relevant contributing factors, redefining as appropriate. → Discussed the potential business impact of Brexit and the possible actions to mitigate the associated risks.
	Reviewed the Company's progress on data governance and cyber security.	→ Review and assess the strength of the Company's cyber security capabilities and potential risks in light of the perpetually changing nature of potential threats.	→ Undertook a comprehensive, externally facilitated assessment of the Company's cyber security risks. → Key areas of risk identified and future priorities agreed. → Updated programme for driving responsible use of data throughout the business.
Customer	**Reviewed progress of Sparks programme and discussed future development.**	→ Review customer perceptions of Sparks against loyalty schemes offered by peers. → Assess overall performance of the scheme and the extent to which it drives customer behaviour. → Determine the overall vision for the future of the programme, including growth prospects and potential future applications.	→ Work underway to ensure the customer insights gathered through Sparks are used to inform future business decisions that generate growth. → Plans in place to further develop and improve the programme.
	Discussed brand and customer proposition.	→ Evaluate insights from customer research and assess recommendations in respect of our brand positioning. → Continue to refine our customer understanding.	→ Key themes emerging from customer and employee research discussed. → Agreed actions to improve customer experience, with emphasis on our brand purpose of Making Every Moment Special.
Leadership & employees	**Discussed succession, talent development and diversity across management.**	→ Review the Board's composition, diversity and succession plans. → Facilitate the smooth succession of the Chairman. → Deliver effective and sustainable management of talent pipelines to ensure the right talent is in the right place at the right time. → Continue to support and encourage the professional development of Board members and senior management to provide them with the skills they need both today and for the future.	→ Women comprised 30% of our Board as at close of the 2016/17 financial year. → Robust succession process for the Chairman completed. → Undertook a comprehensive review of talent and succession among senior management during the year, with clear development plans produced. → Progress made in adapting and simplifying processes for managing our talent pipelines. → Ongoing development initiatives include the Korn Ferry Leadership Development Review, and Development Centres for high potential talent.
	Discussed employee engagement.	→ Promote stronger engagement between the Board and colleagues across the business. → Evaluate the results of the annual Your Say survey from colleagues across the business and identify areas for improvement.	→ Received a detailed update from the National Business Involvement Group (BIG), the Company's employee representative body, on its activities during the year and discussed its role in providing an independent colleague voice. → Discussed colleague sentiment across the business, including key areas of concern and the employee perspective of M&S's future opportunities and risks. → Regular engagement with our people across the business.
	Discussed employee reward and pensions.	→ Implement the agreed arrangements for pay and pensions across the business following the full review initiated during the previous financial year and conclusion of the consultation period.	→ Decision taken to cease future accrual in the Company's defined benefit pension scheme, following a period of consultation with National BIG on behalf of employees. → Determined the Company's future approach to pay with emphasis on fairness, consistency and sustainability, following a period of consultation with National BIG.

LEADERSHIP AND EFFECTIVENESS

BOARD EFFECTIVENESS

This is a period of crucial and profound change for the business and it is heartening to see how committed the Board is to effecting change.

ROBERT SWANNELL, CHAIRMAN

BOARD EVALUATION

The assessment of the Board was conducted according to the guidance in the UK Corporate Governance Code (the "Code") and was facilitated by Ffion Hague of Independent Board Evaluation. Neither Ffion Hague or Independent Board Evaluation has any other connection with the Company.

STAGE 1

A comprehensive brief was given to Independent Board Evaluation by the Chairman and Group Secretary in December 2016. The assessment team observed the main Board and committee meetings in December, January and February. Access to Board papers was provided electronically prior to the meetings via a secure portal.

In January and February, detailed interviews were conducted with each Board member. All participants were interviewed according to a clear agenda, tailored for M&S. The team also met with the Group Secretary, HR Director, Director of Group Finance, Head of Internal Audit & Risk, Director of Retail, audit partners from Deloitte, PwC (remuneration consultant) and Makinson Cowell (independent investor relations consultants).

STAGE 2

The report was compiled by the assessment team based on information and views supplied by those interviewed. All recommendations were based on best practice as described in the Code and other corporate governance guidelines.

STAGE 3

Draft conclusions were discussed with the Chairman and subsequently with the whole Board at its meeting in March, with Ffion Hague present. The conclusion of that discussion was recorded in the minutes of the meeting. Following the Board meeting, Ffion Hague gave feedback on the Chairman to the Senior Independent Director (Vindi Banga), and to the committee chairmen on the performance of each committee. In addition, the Chairman received a separate report with feedback on individual directors.

STAGES OF THE BOARD EVALUATION

STAGE 1
- BRIEFING & BOARD OBSERVATION
- ONE-TO-ONE INTERVIEWS WITH BOARD

STAGE 2
- RESULTS COLLATED, REPORTED & EVALUATED

STAGE 3
- DISCUSSION WITH COMMITTEE CHAIRS
- BOARD DISCUSSION*

! ACTION PLAN AGREED

Note: The above activities were undertaken by Ffion Hague of Independent Board Evaluation.
*Ffion Hague also attended the Board discussion.

BOARD REVIEW INSIGHTS 2016/17

The broad message from the directors was that Board dynamics and the flow of information to the Board has improved significantly. The Board rated itself as satisfactory in its performance on issues of Board focus, risk management, Board culture, the relationship with senior management, meeting schedules and the Board support function. Areas for further progress included consistency of papers and management information, succession planning and people development. As a result, these areas feature in the Board Action Plan for the year ahead. When the review was undertaken, Steve Rowe had been the CEO for a period of nine months. The business had been through significant change in that period and it was clear from the review that the openness in communication was a very positive development. The directors felt that the Board agenda covered the most important topics. However, they felt a review of the management information provided to the Board would improve the pace of the decision-making process. The culture of the Board is seen as positive and supportive. Board members described it as well-balanced, respectful, open, challenging and committed. However, it agreed that a greater diversity of culture, gender and experience might enhance the Board's composition.

COMMITTEES

Board committees were also reviewed and were considered highly regarded in terms of effectiveness and decision making. Senior managers felt significantly challenged by the Audit Committee and commented that the Audit Committee Chairman is very engaged on the key issues.

The Remuneration Committee was seen as effective and considered. Greater visibility around remuneration is welcomed.

CHAIRMAN

The Chairman is much appreciated by staff, who feel he truly embodies the Company's brand through his employee recognition work and his many store visits.

BOARD ACTION PLAN

THE BOARD ACTION PLAN FOR 2017/18 WILL ALSO INCLUDE:

- → Continue tracking of KPIs and management information and their alignment with long-term strategy.
- → Continue tracking of post-decision reviews of major capital investment and strategic changes.
- → Continue to drive the people agenda by creating specific KPIs for people and diversity.
- → Increase the level of informal contact between the Board and senior individuals and the Board and the broader business beyond Head Office.
- → Review the Board education programme to ensure the induction of new Board members is tailored to their individual skills and experience.

LEADERSHIP AND EFFECTIVENESS

RESPONSIBILITIES, OVERSIGHT & INDEPENDENCE

ROLE OF THE BOARD AND ITS COMMITTEES

The Board is responsible for the stewardship of the Company, overseeing its conduct and affairs to create sustainable value for the benefit of its stakeholders. In performing this task, the Board recognises that to promote success over the long term it must fulfil its wider duty to care for the interests of employees, customers and the communities in which the Company operates, and whose support is required to create sustainable value.

The Board discharges some of its responsibilities directly and others through its Board committees and through management. The terms of reference of the Board and its committees are included in our Governance Framework.

The Board agrees, and has collective responsibility for, the strategy of the Company. For M&S, strategy means the development of specific actions aimed at promoting the long-term sustainable growth of the Company by meeting the needs of our target customer groups, across all our product categories and channels. The articulation of our strategy will include agreement on how our physical and intellectual property and the skills of our people should be used, developed and enhanced to create competitive advantage for the Company.

The Board delegates the execution of the Company's strategy and the day-to-day management and operation of the Company's business to the Operating Committee. The Board is responsible for overseeing, guiding and holding to account management in carrying out these responsibilities.

The Board is responsible for ensuring that appropriate values, ethics and behaviours for the conduct of the Company are agreed and that appropriate procedures and training are in place to ensure that these are observed throughout the Company.

The Board has discussed and agreed the key values of Inspiration, Innovation, Integrity and In Touch and these underpin the required values, ethics and behaviours.

Clear terms of reference outline the full schedule of matters reserved for the Board's decision and that of its key committees.

The Board is responsible for:

- → Ensuring leadership through effective oversight and review. Supported by its principal committees – Audit, Remuneration, and Nomination – the Board sets the strategic direction and aims to deliver sustainable shareholder value over the longer term.
- → Overseeing the implementation of appropriate risk assessment systems and processes to identify, manage and mitigate the principal risks of the Company's business. Much of this work is delegated to the Audit Committee.
- → Effective succession planning at Board level and for assessing the processes in place to ensure that there is appropriate succession planning among senior management. Much of this work is delegated to the Nomination Committee.

In addition to the other matters referred to in its Governance Framework, the Board is responsible for specific matters relating to strategy, finance, risk management, internal control and audit, legal, reputation and public company management. These, along with the individual roles of the Board members, are covered by the Schedule of Matters Reserved to the Board in the Marks and Spencer Group plc governance framework, and can be found at **marksandspencer.com/thecompany**.

MONITORING AND OVERSIGHT

Protecting the business from operational, financial and reputational risk is an essential part of the Board's role. Both the directors and senior management focus on not just the short but also the longer term and continue to be more actively involved in risk management and internal controls, an important part of stewardship and key to ensuring the long-term viability of the business.

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

BOARD COLLABORATION

The Group Board and committee structure is provided below and the reports from the chairs of the principal committees can be found on the pages 46, 48 and 54. Following the appointment of Steve Rowe as CEO, the business's operational processes were reviewed and a new framework implemented, with the Operating Committee responsible for monitoring, managing and providing executive input to support strategic and operational decisions to create strong executive alignment on business priorities and actions. Membership of this committee can be found on page 11 or on our corporate website.

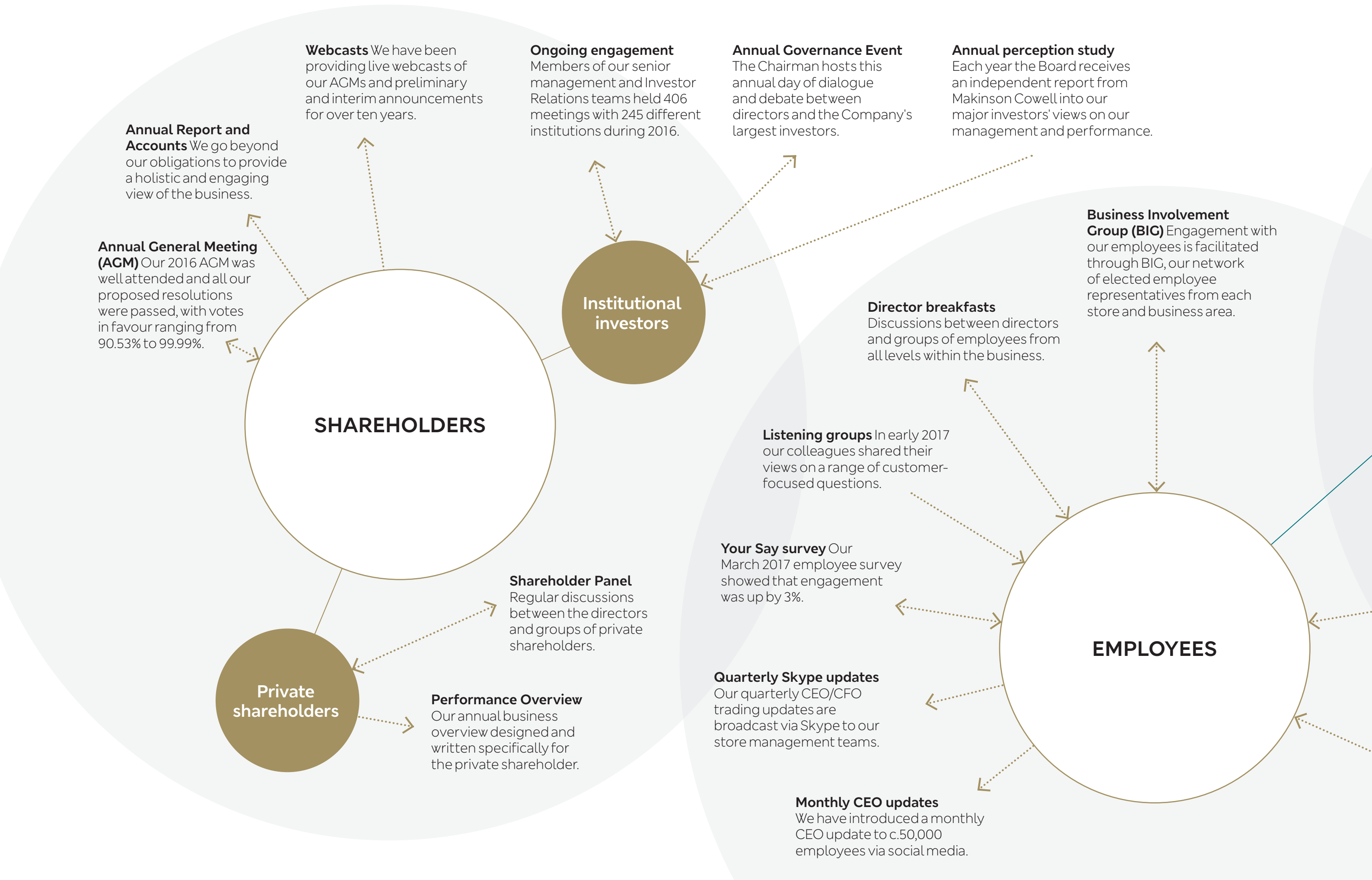
Although the executive directors sit as part of the Operating Committee to debate and understand opinion from key leaders from the business areas, they are ultimately responsible for all for decisions on strategy and all non-property investments through the Investment Committee, and capital expenditure for the Group's UK and International property portfolio in line with the Group's strategic goals and business priorities through the Property Committee.

The supporting committees provide oversight and regular updates to the Operating Committee and annual assurance updates to either the Audit Committee or Group Board. All committees have clear terms of reference and approval thresholds set and approved by the Group Board.

GOVERNANCE

OUR STAKEHOLDERS: HOW WE LISTEN & ENGAGE

Our rich network of **stakeholder relationships** upholds the values on which M&S was founded. These remain vital to building a sustainable business.



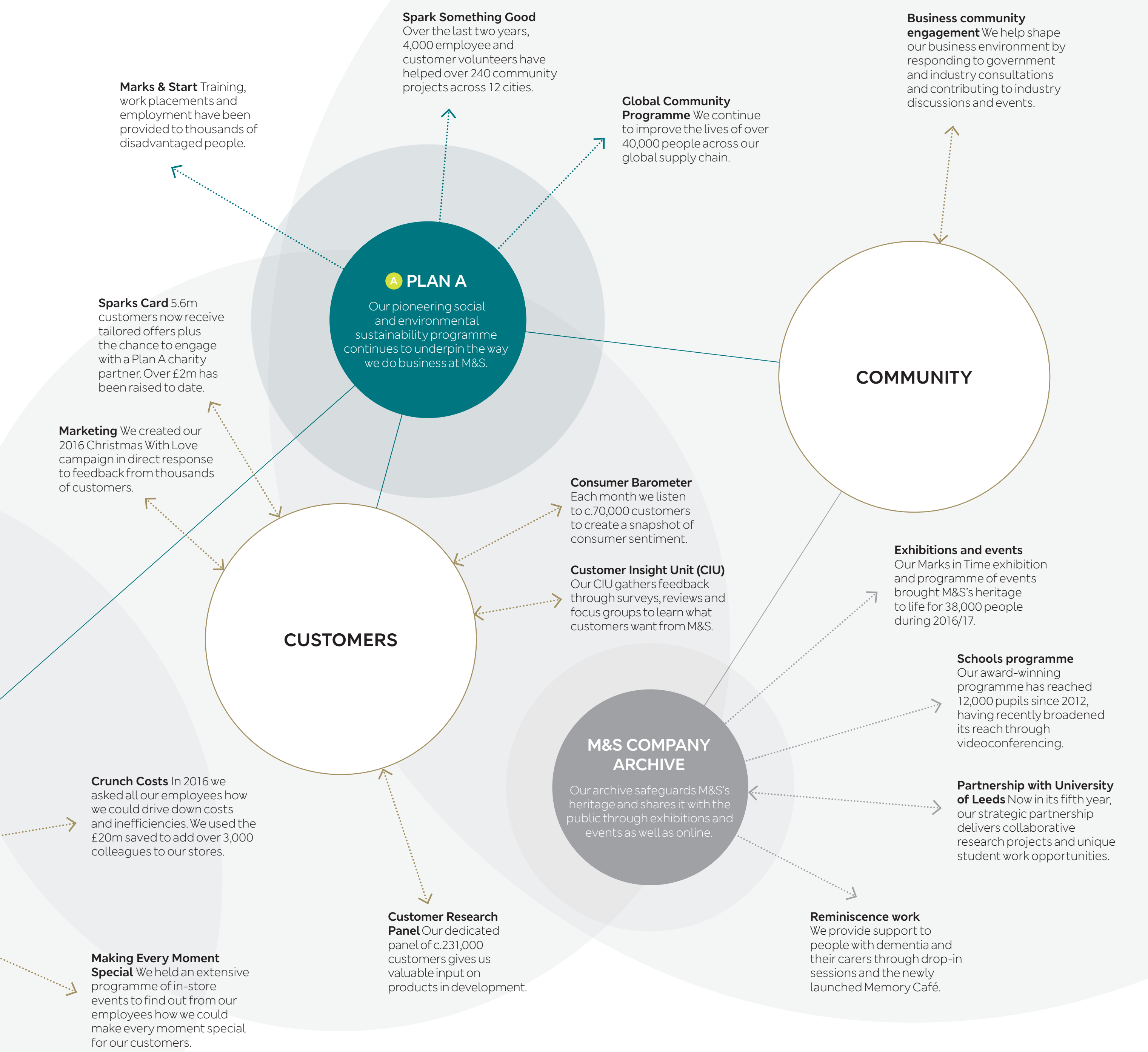
> "The main purpose of building up a great business should not be merely to make money. A company has its responsibilities, not only to shareholders but also to the staff, the customers and the whole community in which it trades. Unless it gives satisfaction, and even happiness to all concerned, it will fail in its aims in the long term."
>
> **LORD SIEFF** DEPUTY CHAIRMAN OF M&S, 1964

SHAREHOLDERS

We are always looking for ways to develop our engagement with shareholders. This year we introduced our regular **Shareholder Panel**, where a small group of private shareholders is invited to participate in face-to-face discussions with members of the Board and senior management. For our large institutional investors and investor advisory firms, we continue to hold our **Annual Governance Event**. Our 2016 event was hosted by the Chairman and attended by the Senior Independent Director, the committee chairmen, Group Secretary, and a senior representative from our Plan A team.

EMPLOYEES

The Board's engagement with the Company's 85,000 employees is facilitated through our **Business Involvement Group (BIG)**, a network of 3,500 elected employee representatives from across all parts of the business. Local BIG teams regularly feed back to National BIG, whose chairman in turn represents the collective employee voice through regular meetings with the Chairman and CEO, plus attendance at our Board. However, employee engagement extends far beyond BIG: one example from the year was a collaborative exercise where we asked our store colleagues what we all needed to do



differently to **Make Every Moment Special** for our customers. Through 75 regional leadership events and 1,500 events involving all our store employees, we found new ways to help empower our people to put customers at the heart of the business (more about this on page 8). Engagement can also start in the community: Through **Marks & Start** we offered work placements to over 2,900 disadvantaged people in 2016/17. Over 65% of those who completed the programme went on to find work, either with M&S or other employers. For further details about how we engage with our employees, see 'Employee Involvement' on pages 81-82.

CUSTOMERS

Our **Customer Insight Unit** constantly gathers feedback from our customers to understand what they want from M&S. Key insights are shared with the directors and are critical to informing strategy. During the year, customer feedback resulted in a number of store improvements including additional staff on shop floors. We also engage with our customers to create **marketing** campaigns that are relevant to them, such as Christmas With Love in 2016 and the creation of Spend It Well. For more on customer insight and engagement, see 'Market & Customer Insights' on pages 6-7 and 'Engaging Our Customers' on page 25.

COMMUNITY

2017 marks the tenth anniversary of **Plan A**, our social and environmental sustainability programme. Central to Plan A is our goal of creating a positive impact in society and improving people's lives, be they employees, customers, workers in our supply chain, charity partners or local communities around the world. Find out more at **marksandspencer.com/plana**. This year also marks the fifth anniversary of the **M&S Company Archive**, whose educational and social activities have enriched the lives of thousands of local people. Visit the Archive's website at **marksintime.marksandspencer.com**.

LEADERSHIP AND EFFECTIVENESS

NOMINATION COMMITTEE REPORT

We are introducing new initiatives to **broaden and develop the strong talent** that exists within the business.

ROBERT SWANNELL CHAIRMAN

INTRODUCTION

During the year the focus of the Nomination Committee (the "Committee") was on the search for a new Chairman to succeed me and the succession of non-executives and senior individuals within the business. As outlined on page 39, the Chairman search was led by Vindi Banga and I did not participate in the process.

In September, following her maternity leave, Laura Wade-Gery, Executive Director, Multi-channel, left the business. Her responsibilities were allocated to the other executive directors, and the business now operates with a smaller executive Board. Laura was instrumental in modernising our ecommerce and multi-channel capabilities, and we wish her the very best for the future.

The Committee maintains a well-defined specification for each appointment, with a clear understanding of the attributes and values required to help the effective functioning of the whole Board. It considers the combination of skills and experience required to fulfil the Board's purpose. As Chairman of the Committee, I take an active role in overseeing the progress made towards improving diversity and women's representation on both the Operating Committee and among its direct reports.

The business has a framework with clearly identified individuals capable of covering key management roles on an interim or permanent basis. These individuals receive the necessary coaching to ensure they have the required skills to provide any critical support when needed. Development for directors and high performing individuals below Board level is an essential area of focus. Coaching and mentoring is provided to develop and enhance specific skill sets, and the Committee believes the benefits of this approach are critical for developing our own talent for the future.

The Committee continues to take a more active interest in talent management, in particular ensuring that initiatives are in place to develop the talent pipeline and to promote diversity in Board and executive appointments.

EFFECTIVENESS OF THE NOMINATION COMMITTEE

Committee review

The Committee's performance was externally evaluated during the year by Ffion Hague.

The Committee was considered to be effective and remains independent. Areas of focus identified for the year ahead are provided below.

Nomination Committee activity

During the year, the Committee held a significant number of unscheduled meetings to support the search and appointment of the new Chairman. In addition, it continued to support the development of the executive directors and participated in several employee-focused initiatives, giving increased access to the organisation.

Looking ahead

An area of focus for the Committee over the coming year will be the link between diversity, strategy and developing the business. More consideration will be given to the nature, variety and frequency of interaction between the Board and aspiring candidates at all levels.

The Committee will play an active part in the induction process for our new Chairman, Archie Norman, who joins the business in September 2017.

MEMBER ATTENDANCE	MEMBER SINCE	NUMBER OF MEETINGS ATTENDED	MAXIMUM POSSIBLE MEETINGS	% OF MEETINGS ATTENDED
Robert Swannell	4 Oct 2010	5	5	100%
Vindi Banga	3 Sept 2011	5	5	100%
Alison Brittain	1 Jan 2014	5	5	100%
Miranda Curtis[1]	3 Feb 2012	4	5	80%
Andrew Fisher	1 Dec 2015	5	5	100%
Andy Halford	1 Jan 2013	5	5	100%
Richard Solomons	13 Apr 2015	5	5	100%

1. Miranda Curtis was unable to attend the meeting on 14 March 2017 due to external business commitments.

ACTION PLAN 2017/18

- → Continue to review succession plans for the Board and key roles across the business.
- → Continue to review future talent pipeline.
- → Review development initiatives for directors.
- → Greater input when tailoring the induction of new Board members to their individual skills and experience.
- → Continue to identify opportunities for broader business engagement beyond Head Office.

BOARD DIVERSITY POLICY

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

For further information on employee diversity, including gender, ethnicity and age, see p24 of our Plan A Report marksandspencer.com/plana2017.

BOARD DIVERSITY: PROGRESS UPDATE

Maintain a level of at least 30% female directors on the Board over the short to medium term.
As highlighted earlier in the report, one change to the Board was made during the year to 1 April 2017, with the resignation of Laura Wade-Gery. Despite the reduced size of the Board, the percentage of women on the Board remains on target at 30% at the time of publication. The charts on page 38 provide a clearer picture of our Board diversity.

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

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

Key initiatives include:

- → A comprehensive talent review presented to the Board annually, mapping successional candidates and opportunities across all senior roles within the business.
- → A thorough approach to talent development through initiatives including the Korn Ferry Leadership Development Review, and Development Centres for high potential talent.
- → The Leadership Development Service has been in place for four years and continues to identify and partner key senior talent across the business, broadening their skill sets and experience to prepare them for future opportunities. This has been supported through greater boardroom exposure, non-executive and Trustee roles outside of M&S, involvement in senior pipeline programmes and participation in mentoring schemes.
- → Access to international business school training.
- → Senior management mentoring and coaching schemes and non-executive director sponsored lunches and breakfasts.

Consider candidates for appointment as non-executive directors from a wider pool, including those with experience outside traditional listed boards.
Although no new appointments were made during the year, the Nomination Committee continued to discuss the successional needs of the Board in respect of its non-executive directors. Lists of potential candidates are compiled with assistance from executive search agencies and comprise candidates from a range of different industries and backgrounds. Those subsequently identified for interview are measured against criteria set at the start of the search process. The Chairman also meets informally with a range of people introduced by third parties or through direct approaches. Although we do not currently openly advertise our non-executive director positions, we appreciate the benefit of this approach and will keep this under review.

Ensure long lists of potential non-executive directors include 50% female candidates.
The Board remains committed to ensuring that high-performing women from within the business and from a variety of backgrounds, who have the requisite skills, are given greater exposure to the nomination committees of FTSE 100 companies. All long lists for potential future non-executive director appointments will include at least 50% female candidates.

Only engage executive search firms who have signed up to the Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice.
The Board continues to support the ten principles of the Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice and is committed to only engaging executive search firms who are signatories to this code. During the year, we worked closely with Egon Zehnder and JCA and maintained our focus on the targets and ambitions around female representation on the Board. The Board confirms that neither Egon Zehnder nor JCA has any other connection with the Company.

Report annually against these objectives and other initiatives taking place within the Company which promote gender and other forms of diversity.
The Board has made strong progress against the key policy objectives during the year, as reported above. In addition, the business has continued to promote diversity through a range of key initiatives:

- → The annual Board evaluation process includes an assessment of the Board's diversity including gender, helping to objectively consider its composition and effectiveness.
- → Five employee-led diversity networks that focus on making M&S an inclusive place to work for women and men (Gender Equality Network), minority ethnic groups (BAME at M&S), lesbian, gay, bisexual and transgender people (LGBT+ at M&S), parents (Parents Net), and people with disabilities and health conditions (The Buddy Network). These deliver large-scale awareness-raising events promoting inclusion and equality, as well as mentoring, coaching, roundtable discussions with senior leaders and regular communication across the business.
- → Continued involvement in the government-backed 30% Club, an organisation committed to increasing female representation on UK boards.
- → Continued involvement running Business in the Community (BITC) mentoring circles which help us to promote and develop BAME (Black, Asian and minority ethnic) talent pipelines.
- → Active involvement in key campaigns including LGBT+ Pride celebrations, International Women's Day, Black History Month, National Inclusion Week, and World Disability Day, raising awareness and our profile as an inclusive employer.
- → A number of programmes to help people in our communities, including Marks & Start and Marks & Start Logistics, 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 evaluation process as an important means of monitoring our progress. Full details of the 2016/17 Board evaluation and the Action Plan are on page 42. We remain committed to getting the right balance of internal versus external hires and work towards understanding and managing the challenges we face, such as:

- → International management experience reflective of the customers and communities we serve.
- → Any challenges women face in reaching regional management positions and above within the business.

ACCOUNTABILITY

AUDIT COMMITTEE REPORT

The Committee has played a key role in ensuring appropriate challenge and governance around accounting treatment, risk management and control and assurance process.

ANDY HALFORD CHAIRMAN OF THE AUDIT COMMITTEE

INTRODUCTION

As Chairman of the Audit Committee (the "Committee"), I am pleased to present the Committee's report for the year ended 1 April 2017.

Through this report I aim to share some of the Committee's discussions from the boardroom, offering insight into its essential role in protecting the interests of our shareholders through ensuring the integrity of the Company's published financial information and the effectiveness of the Internal Audit process. Our report will provide an overview of the significant issues the Committee has assessed during the year and will offer the Committee's view of the Annual Report as a whole, including the methodology behind its assessment of the narrative reporting as an accurate reflection of the financial statements.

The report also shares some of the executive updates that were presented to the Committee by different areas of the business during the year. These updates are essential in telling us how different risks are managed and mitigated throughout the business, and assists the Committee in understanding the progress being made towards the strategic plan. They also provide the Committee members with an opportunity to share their own extensive experience with the presenters, utilising their independent perspective to add value through robust challenge, discussion and debate.

The report will also update you on our assessment of the effectiveness of our statutory auditor, Deloitte, and explain our policy relating to any non-audit work it was engaged to complete and the fees it received for doing so.

EFFECTIVENESS OF THE AUDIT COMMITTEE

The expertise of the Committee members is considered as part of the annual review of the Committee's effectiveness. The Board is satisfied that the Committee possesses relevant sectoral competence and appropriate levels of independence, and that its members offer a depth of financial and commercial experience across various industries. It is further satisfied that Andy Halford possesses recent and relevant financial experience and the requisite competence in accounting.

Audit Committee activities during 2016/17:

- Maintained focus on the audit, assurance and risk processes within the business, as well as oversight of financial and other regulatory requirements.
- Reviewed the Group's systems of internal control and risk management, and any changes in accounting policies and impact on its financial statements.
- Provided oversight of particular business risks, including those relating to ethical sourcing and animal welfare.
- Provided increased oversight of the risks and controls pertaining to cyber security.
- Monitored the financial reporting process, the statutory audit of the Group's financial statements and the independence of the statutory auditor.
- Discussed and reviewed adjusted items that may impact business performance.
- Reviewed the mitigating controls over the Group's principal risks and assessed the level of assurance provided.
- Continued to support assurance mapping across the Group, with particular focus on strategic priorities.
- Continued to monitor and respond to the changing regulatory environment, particularly in respect of implementation of the EU Audit Regulation and Directive.

Members of senior management are invited to attend Committee meetings as and when their specialist technical knowledge is required. The Committee also meets privately, without management present, before each meeting. Additionally, separate private sessions attended by the lead audit partner from Deloitte and the Head of Internal Audit & Risk are held after each meeting. As Committee Chair, I also regularly meet on a one-to-one basis with the Chief Finance Officer, Director of Group Finance, Head of Internal Audit & Risk and other members of senior management. I also meet with the lead audit partner in advance of Committee meetings. Scheduling meetings in this way enables me to better understand any key issues and areas of concern, and allows sufficient time to facilitate meaningful discussion during the subsequent meeting.

MEMBER ATTENDANCE	MEMBER SINCE	NUMBER OF MEETINGS ATTENDED	MAXIMUM POSSIBLE MEETINGS	% OF MEETINGS ATTENDED
Andy Halford	1 Jan 2013	5	5	100%
Alison Brittain	11 Mar 2014	5	5	100%
Miranda Curtis[1]	4 Mar 2015	4	5	80%
Andrew Fisher	3 Feb 2016	5	5	100%

1. Miranda Curtis was unable to attend the meeting on 23 January 2017 due to illness.
Note: Detailed information on the experience, skills and qualifications of all directors is available on pages 36 and 37.

EFFECTIVENESS OF THE AUDIT COMMITTEE CONTINUED

INDEPENDENT REVIEW AND COMMITTEE ACTION PLAN

The Committee's performance was reviewed externally this year by Ffion Hague. Feedback was positive, particularly relating to the open debate encouraged during meetings. It is regarded as thorough and effective, and provides the Board with a high level of assurance that audit matters are dealt with appropriately. Areas in which it was felt improvements could be achieved were discussed by the Committee for inclusion in its 2017/18 action plan.

The Committee made good progress on the 2016/17 action plan by reviewing controls over and assessing the levels of assurance provided in respect of the Group's principal risks, supporting risk assurance mapping across the Group, increasing its oversight of cyber security risks and monitoring regulatory change.

The action plan for 2017/18:

- → Review the effectiveness of Internal Audit in line with the Chartered Institute of Internal Audit requirements and monitor any key findings.
- → Continue to oversee the Company-wide risk and assurance mapping.
- → Continue to monitor oversight of data governance and information security risk ahead of the implementation of the General Data Protection Regulation in May 2018.
- → Oversee the refinement of the internal control environment.

AUDIT COMMITTEE UPDATES

The Committee receives detailed updates from one or more business areas at each meeting. These updates are planned on a rolling 12-month basis. Additional matters identified by Internal Audit as requiring the Committee's attention are included in the agendas of subsequent meetings. An overview of some of the updates presented during 2016/17 is provided below:

MANAGEMENT OF INTERNAL CONTROL FAILURES

The Audit Committee receives updates on internal control matters at each meeting. This regular monitoring of the internal control framework allows timely identification of issues and formal tracking of remediation plans. Instances where the effectiveness of internal controls was considered insufficient were discussed during the year, either by the Audit Committee or the full Board. These have included controls over market updates, third party oversight and IT asset management. As part of the annual review of internal control, the Audit Committee again considered these matters, ensuring that the agreed actions were being implemented to support a programme of maintaining and improving internal control. Following its review, the Committee recommended to the Board that, although the matters identified were important, they had been addressed at the time of its review, with suitable controls now in place.

FIRE, HEALTH AND SAFETY (FHS)

- → Updated on performance across all aspects of trading safely and legally and the progress made in driving compliance standards.
- → Discussed the safety of sales floor equipment, fittings and installations, including progress made and the key actions put in place.
- → Updated on continuing improvements to International governance and compliance processes in respect of FHS, including the reports of the third party facilitated store inspection plan.
- → Noted the reductions in reported accidents in UK-owned stores as a result of work undertaken with our Primary Authority Partner, Birmingham City Council.

ETHICAL SOURCING AND MODERN SLAVERY

- → Updated on the controls in place to ensure an uncompromising approach to maintaining M&S's ethical standards in an increasingly competitive international sourcing environment.
- → Discussed how risks are mitigated through supplier selection, appraisal criteria and regional improvement programmes supported by a strict Internal Audit and monitoring approach.
- → Updated on the approach to supplier inspections and the different processes adopted in Food and Clothing & Home, noting the regular ethical audits undertaken by an accredited third party on all factories used by M&S.
- → Updated on the ways in which the business proactively supports the human rights of colleagues across all business operations, including compliance with the Modern Slavery Act and the steps taken to prevent modern slavery throughout the business and its supply chain.

GOVERNANCE AND COMPLIANCE

- → Updated on the revisions to the auditor engagement policy, implemented following the introduction of the EU Audit Regulation and Directive.
- → Discussed and reviewed the Board's approach in undertaking its assessment of the long-term viability of the business.
- → Updated on the annual circulation of the M&S Code of Ethics and Behaviours, including ongoing monitoring of compliance, and noting plans for a full review of the Code during 2017/18.

BUSINESS CONTINUITY

- → Updated on the continued strengthening of crisis management and business recovery capability across all retail and distribution operations.
- → Discussed national preparedness in the context of the UK's current threat level, crisis simulation exercises undertaken in collaboration with industry peers, and the development of new training tools for Duty Managers aimed at raising levels of preparedness.
- → Updated on preparedness and the crisis management processes in place internationally, region-specific threat assessments and crisis simulations, and procedures relating to business travel to areas deemed to be high risk.
- → Updated on the disaster recovery plans for the distribution centre at Castle Donington, improvements in resilience capability and key milestones achieved.
- → Discussed the priorities for 2017/18, including supply chain resilience in international logistics, International retail and sourcing, as well as global terrorism and cyber security.

FOOD SAFETY AND INTEGRITY

- → Updated on the governance and control processes in respect of food safety, the assessment of operational risks in key areas and the regular reviews of the risk model conducted in response to internal and external issues.
- → Discussed food safety and the processes in place for resolution of complaints.
- → Updated on the internal and external influences on risk mitigation strategy, covering supply base, raw material sourcing, product targeting and regulatory developments.
- → Discussed the food safety and integrity risk profile and the greater focus placed on supply base within the audit programme.

AUDIT COMMITTEE REPORT CONTINUED

SIGNIFICANT ISSUES

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

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

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

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

PRESENTATION OF THE FINANCIAL STATEMENTS

The Committee gave consideration to the presentation of the financial statements and in particular the use of alternative performance measures and the presentation of adjusted items 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 significant in value and/or nature. The Committee received detailed reports from management outlining the judgements applied in relation to the disclosure of adjusted items. In the current year, management has included in this category: the reduction in M&S Bank income for the impact of the M&S Bank provision for financial product mis-selling; significant charges arising in relation to changes to pay and pensions; net costs associated with the implementation of strategic programmes in relation to UK organisation, UK logistics, UK store estate and the closure of International owned businesses; impairments of the carrying value of UK and International stores (including associated onerous leases); and legal settlements. This was an area of focus for the Committee in the current year due to the number and value of these items (£437.4m charge) and the recent guidelines on the use of alternative performance measures issued by the European Securities and Markets Authority.

In addition, the prior year was a 53-week statutory reporting period so consideration had been given to the balance of 52-week and 53-week metrics for the prior year reported throughout the Annual Report. The 52-week measures have been quoted where relevant to ensure meaningful comparison with this year's 52-week period. Following detailed review and active discussion with management, the Committee has concluded that the presentation of the financial statements is appropriate.

See **note 5** on p103

IMPAIRMENT OF GOODWILL, BRANDS, TANGIBLE AND INTANGIBLE ASSETS

The Committee has considered the assessments made in relation to the impairment of goodwill, brands, tangible and intangible fixed assets, including land and buildings, store assets and software assets. The Committee received detailed

FAIR, BALANCED AND UNDERSTANDABLE

At the request of the Board, the Committee has considered whether, in its opinion, the 2017 Annual Report and Financial Statements are fair, balanced and understandable, and whether they provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The structure of the report continues to focus strongly on the key strategic messages in the Strategic Report. It was therefore important for the Committee to ensure that this emphasis did not dilute the overall transparency in the disclosures made throughout the report, which we know our stakeholders find useful, and that the messages presented by the business are both clear and reflective of the Company as a whole.

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

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

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

IS THE REPORT FAIR?

→ Is the whole story presented and has any sensitive material been omitted that should have been included?

→ Is the reporting on the business performance in the narrative reporting consistent with those used for the financial reporting in the financial statements?

→ Are the key messages in the narrative reflected in the financial reporting?

→ Are the KPIs disclosed at an appropriate level based on the financial reporting?

IS THE REPORT BALANCED?

→ Is there a good level of consistency between the narrative reporting in the front and the financial reporting in the back of the report, and does the messaging presented within each remain consistent when one is read independently of the other?

→ Is the Annual Report properly a document for shareholders?

→ Are the statutory and adjusted measures explained clearly with appropriate prominence?

→ Are the key judgements referred to in the narrative reporting and the significant issues reported in this Audit Committee Report consistent with the disclosures of key estimation uncertainties and critical judgements set out in the financial statements?

→ How do the significant issues identified compare with the risks that Deloitte plans to include in its report?

IS THE REPORT UNDERSTANDABLE?

→ Is there a clear and understandable framework to the report?

→ Are the important messages highlighted appropriately throughout the document?

→ Is the layout clear with good linkage throughout in a manner that reflects the whole story?

CONCLUSION

Following its review, the Committee was of the opinion that the 2017 Annual Report and Financial Statements are representative of the year and present a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

SIGNIFICANT ISSUES CONTINUED

reports from management outlining the treatment of impairments, valuation methodology, the basis for key assumptions (discount rate and long-term growth rate) and the key drivers of the cash flow forecasts. The Committee has challenged management and is satisfied that these are appropriate. The Committee has also understood the sensitivity analysis used by management in its review of impairments. In addition, the business plans detailing management's expectations of future performance of the businesses are Board approved. The Committee is satisfied that appropriate impairment of tangible and intangible assets has been recognised.

See notes 5, 14 & 15 on p103-104 & 114-116

INVENTORY VALUATION AND PROVISIONING

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

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 the financial statements.

See note 11 on p108-111

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.

SUPPLIER INCOME

This continues to be monitored closely by management and robust controls are in place to ensure appropriate recognition in the correct period. The Committee is satisfied with management's conclusion that there is minimal risk of material misstatement. Enhanced disclosure has been made again in the current year through publication of the accounting policy and disclosing the effects of supplier income on certain balance sheet accounts.

CLOSURE COSTS FOR INTERNATIONAL OPERATIONS (NEW DISCLOSURE)

The Committee has considered the assessments made in relation to the estimation of closure costs and associated provisions for the exit from certain International owned markets. The Committee received detailed reports from management outlining the accounting treatment of the costs, the basis for the key assumptions used in the estimation of the costs (most notably in relation to property exit costs and redundancy) and the assessment of assets to be impaired. The Committee has challenged management and is satisfied that these are appropriate. The Committee is satisfied that appropriate costs and associated provisions have been recognised.

See notes 1, 5, 15 and 22 on p96, 103, 115 and 124

EXTERNAL AUDITOR

TENURE

Deloitte was appointed by shareholders as the Group's statutory auditor in 2014 following a formal tender process. The lead audit partner, Ian Waller, has held the position for three years. The external audit contract will be put out to tender at least every ten years.

The Committee recommends that Deloitte be reappointed as the Company's statutory auditor for the 2017/18 financial year. We believe the independence and objectivity of the external auditor and the effectiveness of the audit process are safeguarded and remain strong. The Company has complied with the Statutory Audit Services Order for the financial year under review.

EFFECTIVENESS

The effectiveness of our external auditor is assessed in accordance with a process agreed by the Audit Committee, which is divided into ten structured components setting out the key areas of the audit process for the Committee to consider.

This framework also recognises the contribution of management in being fully engaged with, and thereby enhancing the effectiveness of, the external audit process. It enables the Audit Committee to form a view of management's role in an effective audit process by considering whether it believes in a culture of 'right first time', produces high quality papers, ensures robust internal systems and controls are maintained, respects and values the independent audit process and examines any audit adjustments proposed by the external auditor with appropriate rigour.

This framework provides a robust process for monitoring auditor effectiveness and can be measured against the findings of future external auditor effectiveness surveys. The approach to the assessment is tailored to enable senior management to answer detailed questions on the Company-wide audit process, and provide the Audit Committee with sufficient detail to establish an informed view on the overall efficiency, integrity and effectiveness of the external audit.

Questionnaires were tailored to the following target groups:

1. **Chief Finance Officer and Director of Group Finance:** A full questionnaire was completed, covering all areas of the audit process, while taking account of the questionnaires completed by the Directors of Finance for Food and Clothing & Home and Head of Finance, International.

2. **Directors of Finance: Food, Clothing & Home and Head of Finance, International:** Shorter questionnaire, focusing on the audit team, planning, challenge and interaction with the business.

3. **Audit Committee:** A high-level set of questions with specific focus on the planning, execution, value, communication and challenge of the audit and audit partner. The Committee had access to copies of the completed management questionnaires (sections 1 and 2 above) to assist with its own considerations.

WHAT WAS THE OUTCOME?

Feedback from each of the target groups was positive overall, particularly in respect of the technical insight and challenge provided by the audit team; its level of interaction with the business; its strong understanding of M&S's culture and values; and the valuable guidance provided for the Company's strategic initiatives. It was felt that areas identified during the 2015/16 review had improved during the year, specifically the communication between the business and Deloitte during the audit process; however, it was felt that further improvements could still be achieved.

Areas for development identified in this year's review were encouraging a more joined-up approach during the audit and ensuring the timely provision of accurate information by M&S to the auditor. Additionally, it was felt that further work by both M&S and Deloitte would improve the efficiency of the overseas audit process.

AUDIT COMMITTEE REPORT CONTINUED

EXTERNAL AUDITOR CONTINUED

NON-AUDIT FEES

A robust auditor engagement policy is in place and adhered to. It is reviewed annually and was updated during the year to account for the tighter restrictions on work permitted to be undertaken by the statutory auditor introduced by the Financial Reporting Council's (FRC) Revised Ethical Standard 2016. The policy is disclosed on marksandspencer.com/thecompany. The business is committed to maintaining non-audit fees at a low level. The non-audit fees to audit fees ratio for the financial year ended 1 April 2017 was 0.16:1, compared with the previous year's ratio of 0.17:1. During the year, the Company was notified that Deloitte had acquired crisis management specialists Regester Larkin (RL), which the Company has engaged, prior to acquisition, to develop crisis management exercises. The fees for RL were £32k. Since the bulk of the fees were incurred prior to RL's acquisition by Deloitte, it was decided to complete the project as planned and that alternative providers would be reviewed for future engagements. The majority of the £0.3m in non-audit fees paid in total to Deloitte during 2016/17 were incurred for assurance services it provided during the year. These comprised fees in respect of the Half Year review, turnover certificates, the annual Euro Medium Term Note (EMTN) programme renewal, reviews of quarterly trading statements, crisis management reviews and overseas engagements. It is normal practice for such assurance services to be provided by the Company's statutory auditor. No additional recurring or one-off non-audit services were provided during the year.

The Committee is satisfied that the Company was compliant during the year with both the updated UK Corporate Governance Code and the FRC's Ethical and Auditing Standards in respect of the scope and maximum permitted level of fees incurred for non-audit services provided by Deloitte. Where non-audit work is performed by Deloitte, both the Company and Deloitte ensure adherence to robust processes to prevent the objectivity and independence of the auditor from being compromised.

All non-audit work performed by Deloitte was put to the Audit Committee for consideration and approval, regardless of size. Further details on non-audit services provided by Deloitte can be found in note 4 on page 102.

ASSURANCE AND INTERNAL CONTROL ENVIRONMENT

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

+ See p32-33 of the Strategic Report for more information on our **material risks**

+ See p30 for further information on our **risk management processes**

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

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

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

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

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

The Group was compliant throughout the year with the provisions of the UK Corporate Governance Code relating to internal controls and the FRC's revised Guidance on Audit Committees and Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. No significant failings or weaknesses were identified during the Committee's review in respect of the year ended 1 April 2017 and up to the date of this Annual Report.

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

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

ANDY HALFORD AUDIT COMMITTEE CHAIRMAN

INTERNAL ASSURANCE FRAMEWORK

Source of information		Frequency/nature of reporting	
Committees	→ Fire, Health & Safety Committee → Plan A Committee* → Business Continuity Committee	**Direct reporting lines to the Committee, with annual updates from the relevant executive**	**AUDIT COMMITTEE**
Business areas	Papers produced on the following subjects: → Information Security → Whistleblowing & Fraud → Bribery → Code of Ethics and Behaviours → GSCOP (Grocery Supplier Code of Practice)	**Formal updates presented to the Committee annually**	
Other control agencies	Internal Audit testing (as appropriate) in relation to: → Food Safety & Integrity → Ethical Audits → Trading Safely & Legally	**Updates provided to the Committee as requested or appropriate**	

* Note: also reports directly to the Board.

GOVERNANCE

PENSIONS GOVERNANCE

The Group operates a defined benefit pension scheme, the Marks & Spencer UK Pension Scheme, (the "Scheme") for employees with an appointment date prior to 1 April 2002. The Scheme closed to future accrual from 1 April 2017. Employees are now eligible to join and are auto-enrolled as required by legislation into a defined contribution pension scheme, Your M&S Pension Saving Plan, which is part of a mastertrust arrangement managed by Legal & General.

The results of the triennial actuarial valuation of the Scheme as at 31 March 2015 revealed a surplus of £204m on a technical provisions basis. This represented a healthy improvement from a deficit of £290m as at 31 March 2012 as a result of agreed recovery plan contributions from the Company and outperformance of return-seeking assets over the period. The Scheme has also been hedged against interest rate and inflation risks and has thus been insulated from the effect of falling real interest rates. Scheme funding is closely and frequently monitored and Scheme investment risks are diversified.

The Scheme, the assets of which are held under trust separately from those of the Group, is 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 additional terms.

The Trustee Board operates a number of committees including: Management and Governance, Investment, and Audit to which responsibilities are delegated. The Trustee Board is supported by an executive team which manages the governance and operation of the Scheme.

The Trustee Board has a business plan against which progress is measured periodically in a similar approach to the Group Board. There is also an annual Trustee 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. A majority of the Trustee Board members hold the Pensions Management Institute Award in Trusteeship.

All advisers and suppliers are appointed through a rigorous tender process, and in respect of investment manager appointments are made with advice from the Scheme's appointed investment adviser. They are monitored via quarterly reports and periodic meetings and there is also a rolling programme of both informal and formal adviser reviews.

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

The Scheme is a signatory to the UN Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code. It 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 Board policy, which addresses a range of governance, social and environmental issues. The engagement of EOS enhances the Trustee Board's stewardship and governance oversight of investee companies by engaging with companies on a global basis. The results of these voting and engagement activities are published quarterly on the Scheme's website.

GOVERNANCE

REMUNERATION OVERVIEW

Our remuneration framework is **aligned with the strategic direction** of M&S and the interests of our shareholders, with a clear focus on customer, simplicity and teamwork.

VINDI BANGA CHAIRMAN OF THE REMUNERATION COMMITTEE

On behalf of the Board, I am pleased to present our 2017 Remuneration Report. The Committee has sought to further improve our disclosures once again this year to provide not only the regulatory information we are required to disclose while balancing against commercial sensitivities, but also the context surrounding pay arrangements. Additional context has been provided where we believe this will help to present a complete picture of the structure and scale of the remuneration framework, its alignment with the business strategy and the rest of the workforce, as well as the payments made as a result of business performance for this year.

As highlighted last year, and in line with regulations, we are now seeking shareholder support and approval for our Remuneration Policy at the 2017 AGM. This year's summary 'Remuneration at a Glance' highlights not only the key elements of the payments made to directors this year, but also gives an outline of the proposed amendments to the Remuneration Policy which will govern pay arrangements in the next three years.

As required, this report is split into two further distinct sections, the first covering our updated Remuneration Policy, and the second covering remuneration in action for the 2016/17 and 2017/18 financial years. In accordance with regulations, shareholders will be requested to vote separately on these reports at our AGM in July 2017, with this Remuneration Overview and the Annual Report on Remuneration being subject to an advisory vote.

REMUNERATION FRAMEWORK CONSIDERATIONS

The Board is committed to ensuring that our remuneration framework supports our strategy, and provides a balance between motivating and challenging our senior leaders to deliver our business priorities, as set out by our CEO, and strong performance while also driving the long-term sustainable success of M&S. As a result, a significant part of performance related reward is delivered through shares. This ensures that our leaders have meaningful long-term investment in our business, and that their interests are closely aligned with our shareholders.

The Committee spent a considerable amount of time this year liaising with many of our shareholders and sharing a wide variety of views on remuneration generally, including the framework, structures, measures and targets. It explored a number of options taking into account the various perspectives and views and considering these against the current framework, the current economic and market environment, the business strategy and progress against the goals set out last year.

As we explained in the Annual Report last year, we delayed granting the 2016 Performance Share Plan (PSP) awards until December 2016 to ensure the targets set were appropriately aligned to the strategic review being undertaken by the new team following Steve Rowe's appointment as CEO. As the focus of the business plan announced in November 2016 remains unchanged and the team has had less than one year to start to implement much of this, the Committee considered that the structure of the current remuneration framework continues to support this strategy.

PROPOSED AMENDMENTS TO REMUNERATION POLICY

Taking all of the above into account, the Committee has therefore decided to maintain the principles of the framework first introduced in 2010 and approved by shareholders in 2014, but to make some minor amendments to incentive arrangements to ensure sharper and more relevant alignment between senior remuneration, the strategic direction of the Company, and the interests of our shareholders.

The PSP will continue to be the primary long-term incentive plan for executives. We are maintaining the overall construct of the plan, with the typical award being 250% of salary. However, we will be introducing a two-year holding period post vesting for all long-term incentive awards made from 2017, to ensure greater alignment of our leaders' remuneration with long-term stakeholder interests.

Furthermore, we will be reducing the cash supplement in lieu of pension contributions for new executive director appointments. The new threshold will be reduced from 30% (for the CEO) and 25% (for all other directors) to a maximum of 20% for all future executive directors, including the CEO. Contractual arrangements for current executive directors will remain unchanged at 25%. This removes any policy differential between the CEO and other executive directors.

KEY ELEMENTS OF 2017/18 REMUNERATION ARRANGEMENTS

The Annual Bonus Scheme will continue to be based on corporate financial targets (currently 70%) and individual objectives (currently 30%). The maximum opportunity will remain 200% of salary. The financial measure will continue to be Group PBT before adjusted items (Group PBT). The individual measures on page 69 highlight the importance of collective and customer focused measures to support the one team behaviours which have the customer at the heart of the business, in line with the business strategy.

The PSP will be maintained but will also now include a two-year holding period post vesting as previously outlined. TSR will be introduced as a key measure to both reinforce alignment of executive interests with shareholders, as well as being a relative measure of value creation. TSR will replace cash flow as a measure, and the financial measures of EPS and ROCE will be retained as measures of profitable and efficient business performance.

Each of the three measures will have equal weightage; thus TSR will count for a third; ROCE will count for a third and up from the historical 20%; EPS will count for a third, less than the historical 50%.

As in the past, the Committee will have oversight into the quality of how the outcomes of EPS and ROCE are delivered

IN THIS SECTION

and will exercise discretion as necessary. While the Committee believes that introducing TSR at this stage provides an important measure of the success of the new strategy for the executive team, the Committee also believes that certain strategic and non-financial measures may become more significant to M&S to warrant consideration for PSP measurements in future years.

Given the continued challenging economic and market environment, consumer concerns over Brexit, and ongoing currency and inflationary headwinds, the Committee has set the 2017/18 targets at what it believes would represent stretching business performance. For EPS and ROCE, targets have been increased from those set for the 2016 PSP award, which were rebased against the new financial plan. These increased targets reflect the plans for the business to return to growth in the next three years. TSR performance will be measured against a bespoke group of comparator companies, broadly similar to that adopted by other companies in our sector. In accordance with standard market practice, targets for threshold and maximum vesting will be set at median and upper quartile performance of the Group respectively.

REMUNERATION FOR 2016/17

As referenced earlier in the Annual Report, since his appointment as Chief Executive, Steve Rowe has set out clear and decisive plans to accelerate the pace of change to return the business to growth. A huge amount of work has already begun to implement and deliver this strategy, including the investment in Clothing & Home pricing and the reshaping of both the UK store estate and the International business. While these plans have laid the groundwork to M&S's long-term recovery, the necessary investment has meant that profits delivered this year are lower than last year, although above consensus expectations. However, this was not unexpected and our financial plan for the year reflected this.

The Remuneration Committee is satisfied that incentive payments for the executive directors reflect both the overall financial performance of the business and the hard work undertaken by the team to achieve this in the challenging environment. Total payments are around 35% of the maximum receivable, of both fixed and variable pay together, if all stretch targets had been achieved. This clearly demonstrates the philosophy of the executive directors' pay arrangements in action, including the rigour of target setting; maximum payments will only be payable for exceptional performance.

As can been seen on page 56, there is a clear and demonstrable link between business strategy and payments for 2016/17 performance to the executive directors. The key business priorities are referenced on pages 8-11 of this report. Executive director targets were aligned with these priorities and achievement against the key financial priorities are shown on pages 18-21.

ANNUAL BONUS OUTTURN

As highlighted earlier, the year has been one of considerable change for M&S. When approving payments, the Committee considered the overall performance of the business and of the executive directors against this, as well as against their individual targets. Details of the bonus payments to each of the executive directors are outlined on page 68. Bonus payments ranged from 37% to 42% of maximum opportunity. Bonus payments made to directors reflected the large proportion of collective measures for the year, in support of focusing on teamwork and simplicity within the pay arrangements.

PSP VESTING

The PSP awards granted in 2014 were measured for the three-year period up to 1 April 2017 against EPS, ROCE and Revenue targets. As the threshold targets were not achieved, all awards held by executive directors will lapse.

SALARY REVIEW

The Committee discussed the annual salary review for all executive directors. In line with the budget salary increases for the rest of the organisation, the Committee approved a 2% increase for all executive directors. However, as clearly disclosed in last year's report the executive directors have, for the second year in succession, chosen to not accept this increase. Salaries for the executive directors will therefore remain at those levels set in July 2015, apart from Steve Rowe, whose salary changed on his appointment to CEO in April 2016.

BOARD CHANGES

In September 2016, we announced that Laura Wade-Gery would not be returning to the business following her maternity leave. Laura's remuneration terms, disclosed at the time, were in line with the key provisions for contract termination as per the shareholder approved Remuneration Policy. In addition, details in relation to outstanding remuneration for Marc Bolland following his departure are also provided on page 75.

STAKEHOLDER ENGAGEMENT

We are grateful to shareholders, shareholder representative bodies, regulatory bodies and remuneration advisers for their engagement, feedback, challenge and view on remuneration matters over the past year. The Company has been actively involved on the subject of executive remuneration and stakeholder engagement, and earlier this year responded to the UK Government's Green Paper on Corporate Governance Reform.

Stakeholder engagement, including input from M&S's Business Involvement Groups are key to ensuring we continue to drive the transparency around our decisions relating to executive pay, provide clarity and quality of our performance targets and associated disclosures, and ensure the relevance of our long-term executive pay incentives and their alignment to the performance of the business. We are grateful for this ongoing dialogue. Together with the rest of the Board, I look forward to hearing your views on our remuneration arrangements and will be available to answer any questions you may have at the AGM.

Vindi Banga

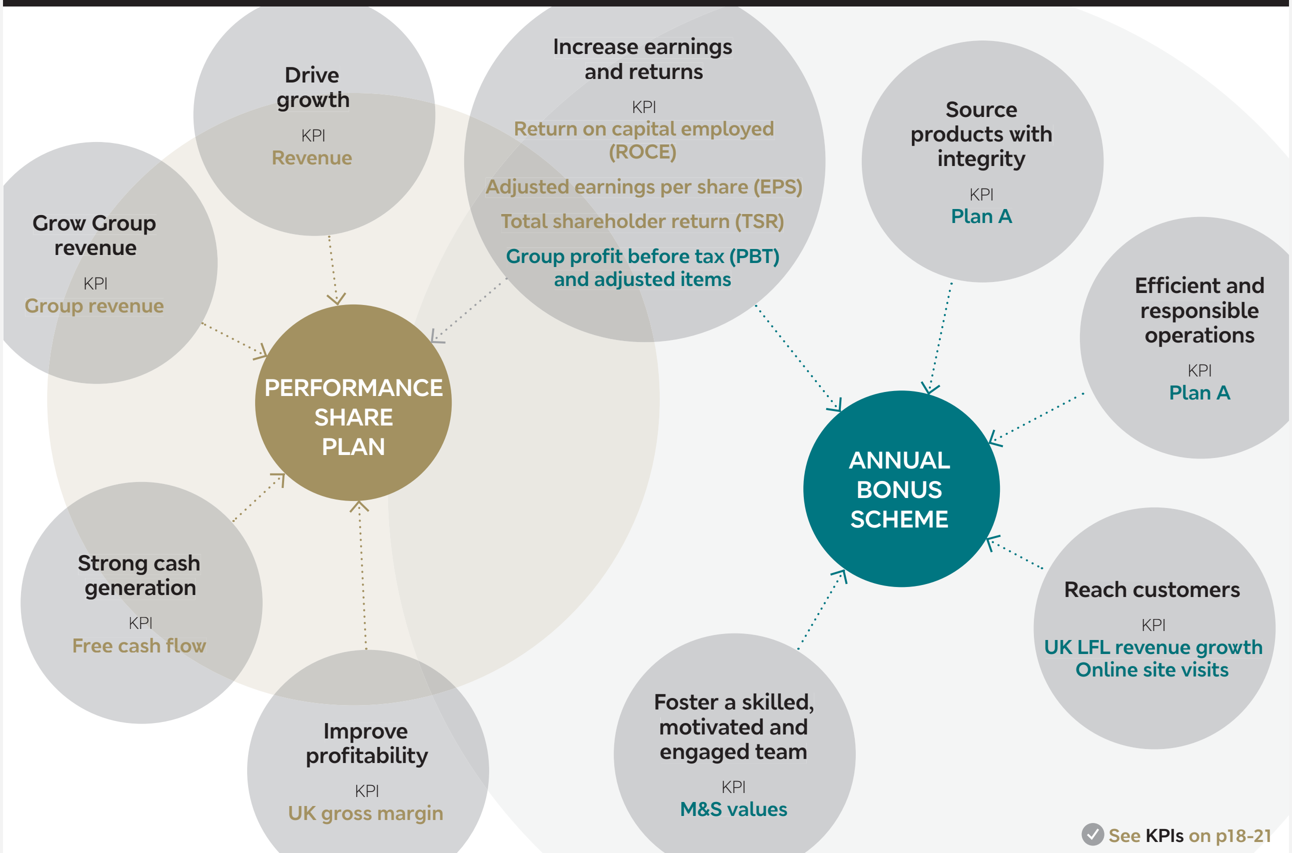
VINDI BANGA
CHAIRMAN OF THE REMUNERATION COMMITTEE

GOVERNANCE

REMUNERATION AT A GLANCE

This overview summarises our Remuneration Policy in action and shows the alignment between our remuneration framework, the Company's performance and payments to directors for 2016/17.

STRATEGIC ALIGNMENT OF REMUNERATION FRAMEWORK WITH KPIs



See KPIs on p18-21

2016/2017 PERFORMANCE

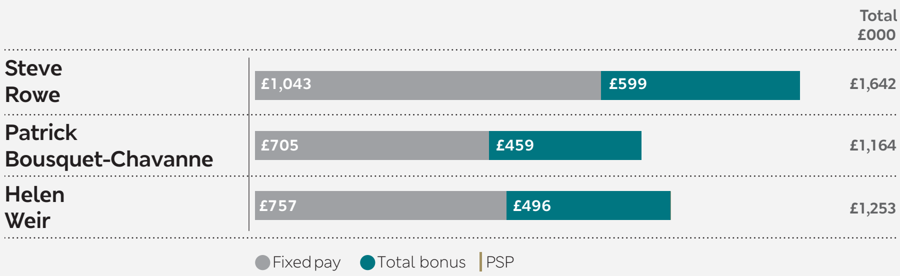
GROUP PBT BEFORE ADJUSTED ITEMS	GROUP REVENUE	RETURN ON CAPITAL EMPLOYED	ADJUSTED EARNINGS PER SHARE	FREE CASH FLOW (PRE SHAREHOLDER RETURNS)
£613.8m	£10.6bn	13.7%	30.4p	£585.4m
Group PBT was above the target set for bonus payments to begin. For executive directors, 19.5% of bonus opportunity was payable as a result of this Group PBT performance.	Performance under all revenue metrics was below the threshold required for payment under the 2014 PSP award, resulting in this element of the award lapsing.	Average 3-year ROCE performance of 14.5% (including 13.7% for 2016/17) was below the threshold required for this element of the 2014 PSP award to vest.	EPS growth was -1.9% over the three years ending in 2016/17 (based on the outturn of 30.4p for this year), which was below the 5% growth required for vesting under the 2014 PSP award.	Free cash flow performance for the year had no direct impact on payments for 2016/17 but will impact PSP payments for the next two financial years, measured on a cumulative 3-year basis. The 2016/17 outturn is more than 1/3 of the annualised target under the respective outstanding awards.

SINGLE FIGURE REMUNERATION 2016/17

The graph opposite summarises the total payments made to executive directors in respect of the 2016/17 financial year. These figures illustrate those detailed in the single figure table set out later in this report.

Fixed pay comprises salary, benefits and pension benefits. Further information on payments made under the Annual Bonus Scheme is illustrated below, with further details provided on page 68.

Performance Share Plan awards did not meet the threshold performance required for vesting this year and, as such, awards will lapse in full on their vesting date.



See **Single figure remuneration** on p66

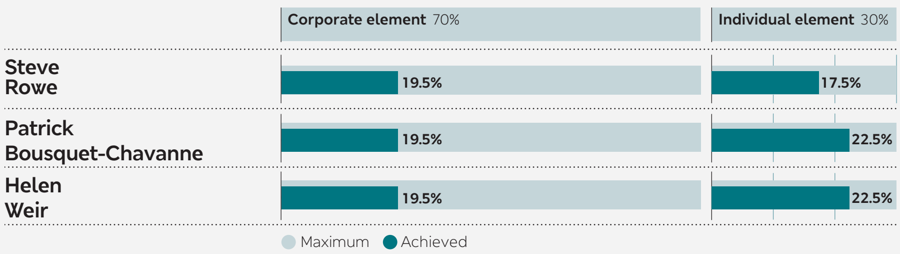
See **Annual Bonus Scheme** below and p68

See **PSP** on p71

ANNUAL BONUS SCHEME 2016/17

Bonus payments made in respect of performance for the year were between 37% and 42% of maximum bonus opportunity. This resulted in payments ranging from c.£459,000 to c.£600,000, with half of all payments being deferred into shares for three years, subject to malus provisions being met.

Further detail on the performance measures and targets and the extent to which they were achieved are shown on page 68 of this report.



See **Annual Bonus Scheme** on p68

SUMMARY OF POLICY AND PROPOSED AMENDMENTS

Shareholders approved the Remuneration Policy at the AGM in 2014. As such, the Company is required to seek approval for the new policy at the AGM to be held on 11 July 2017. Pages 58 to 65 provide the full details of the proposed policy.

The Committee reviewed the senior remuneration framework during the year to ensure that it remains 'fit for purpose', providing an appropriate framework to fulfil M&S's reward philosophy which is, in turn, designed to support and drive the business strategy. Changes proposed to the policy are minimal as the Committee felt the previously approved framework remains broadly appropriate. For transparency, the table below sets out an overview of the key areas of the policy.

	Base salary	Benefits	Pension benefits	Annual Bonus Scheme	Performance Share Plan	Non-executive directors (including Chairman)
MAIN FEATURES OF CURRENT POLICY	→ Increases awarded are normally in line with those elsewhere in the business. Adjustments in excess of this may be made where the Committee deems it appropriate.	→ Benefits provided at a rate commensurate with the market and currently include a car or cash allowance, a driver, and life assurance plus other benefits provided to all employees, including employee discount.	→ Directors may participate in M&S's defined contribution arrangement on the same terms as other employees, or receive a cash supplement in lieu of pension contributions. Cash alternative maximum is currently 25% of salary for other executive directors (30% for CEO).	→ Maximum opportunity of 200% of salary. → 50% of total bonus deferred into shares for three years. → Measured against Adjusted Group PBT (currently 70% of award) and individual objectives. → Clawback and malus provisions apply.	→ Maximum award of 300% of salary. → Performance measured against financial targets over a three-year period. → Clawback and malus provisions apply.	→ Fees reviewed annually. → Comprise basic fee plus additional fee for extra responsibility of Board or committee chairman or Senior Independent NED. → In addition, the Chairman may be entitled to the use of a car and driver.
POLICY CHANGE	→ Salaries will be compared against appropriately-sized listed companies which may be outside of the FTSE 25-75 detailed in the previous policy.	→ No change.	→ For current executive directors, the maximum cash allowance will be limited to 25% of salary for all (including the CEO). → For future appointments, the cash amount payable will be capped at 20% of salary for all.	→ No change.	→ A two-year holding period post vesting will be introduced. → Performance conditions may include quantifiable non-financial/ strategic measures, with financial measures comprising at least 50% of awards.	→ Fees will be compared against appropriately-sized companies which may be outside of the FTSE 25-75 detailed in the previous policy.

OUR BUSINESS
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GOVERNANCE

REMUNERATION POLICY

This report sets out the Company's policy on remuneration for executive and non-executive directors, to be approved by shareholders at the AGM on 11 July 2017, from which date the policy will apply. The policy remains largely unchanged from that approved by shareholders in 2014; for transparency, where amendments have been made these are highlighted. Once approved, this policy may operate for up to three years.

As previously, the Committee has 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.

Further information regarding the implementation of the previous remuneration policy is set out on pages 66 to 77.

KEY CHANGES TO THE POLICY

Base salary

→ Base salaries will be compared against major retailers and appropriately-sized listed companies which may be outside of those ranked FTSE 25-75. Previously, the peer group comprised FTSE 25-75 ranked companies. This change reflects M&S's FTSE ranking.

Pension benefits

→ Maximum cash payments will be limited to 25% for all current executive directors and to 20% for all future executive directors. This reduction better reflects pension arrangements in the wider workforce.

Performance Share Plan

→ To further support shareholder alignment, a two-year holding period post vesting will apply to any awards granted to executive directors after the 2017 AGM.

→ Performance conditions may now include quantifiable non-financial or strategic measures. Previously, performance conditions were limited to financial measures only. This change will ensure strategic alignment of the PSP.

FIGURE 1: EXECUTIVE DIRECTORS' REMUNERATION POLICY TABLE (TO BE APPROVED ON 11 JULY)

ELEMENT	Base salary	Benefits
PURPOSE AND LINK TO STRATEGY	To attract, retain and motivate high calibre executives needed to deliver our strategy and drive business performance.	To provide market-competitive benefits which drive employee engagement and commitment in our business.
OPERATION	→ Payable in cash. → Reviewed annually by the Committee considering a number of factors, including: – Salary increases awarded to other employees in the wider workforce which are typically reviewed annually on a similar basis; and – Comparable salaries in appropriate comparator groups. → Salaries reflect the experience, responsibility and contribution of the individual and role within the Group. CHANGE FOR 2017 → **Appropriate comparator groups may include major retailers and similarly-sized listed companies which may be ranked outside of the FTSE 25-75.**	→ 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. → Directors are offered a number of other benefits in line with all other employees, such as employee discount and salary sacrifice schemes such as Cycle2Work. → Directors may participate in a Save As You Earn Scheme and a Share Incentive Plan and any other all-employee share schemes on the same terms as other employees.
MAXIMUM OPPORTUNITY	→ While 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.	→ While there is no set maximum, any benefits will be provided at a rate commensurate with the market. → Maximum participation in all-employee share schemes is in line with local statutory limits.
PERFORMANCE CONDITIONS	N/A	N/A

Pension benefits	Annual Bonus Scheme including Deferred Share Bonus Plan (DSBP)	Performance Share Plan (PSP)
To attract and retain high calibre executives through a commitment to responsible, secure retirement funding in line with our Company values.	To drive annual profitability, strategic change and individual performance in line with the 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.	Measured against the key financial drivers of the business plan to deliver sustainable value creation. To encourage long-term shareholding to retain directors, and provide greater alignment with shareholders' interests.
→ Current directors may participate in the Your M&S Pension Saving Plan (a defined contribution arrangement) or an alternative pension saving vehicle that the Company may offer, on the same terms as all other employees or receive a cash supplement in lieu of pension contributions into this scheme.	→ 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. → Clawback and malus rules apply to cash and DSBP awards respectively, see explanatory notes (page 60) for more information. → Good leaver and change of control provisions apply to the deferred shares (see explanatory notes). → The value of any dividends during the deferred period will be payable (see explanatory notes). → 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.	→ The Company's principal long-term incentive scheme, approved by shareholders in 2015. → 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. → Clawback and malus rules apply to awards (see explanatory notes). → Good leaver and change of control provisions apply (see explanatory notes). → The value of any dividends during the vesting period will be payable. (see explanatory notes) CHANGE FOR 2017 → **Awards granted after 11 July 2017 will be subject to a further two-year holding period after the vesting date. Directors may sell sufficient shares to satisfy the tax liability on exercise but must retain the net number of shares until the end of this two-year period.**
→ A maximum cash payment of 25% of salary for current executive directors. → A maximum employer contribution of 12% of salary where the employee contributes 6% of salary. CHANGE FOR 2017 → **The cash alternative provided to current executive directors will be limited to 25% of salary for all directors. For directors appointed to the Board after 11 July 2017, the cash alternative will be up to a maximum of 20% of salary for all directors.**	→ A maximum annual potential of up to 200% of salary.	→ 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.
N/A	→ Quantifiable one-year performance measures and targets are set by the Committee around financial and individual objectives linked with the sustainable delivery of the business plan. → Financial performance measures comprise at least 50% of awards and may include, but not be limited to Group PBT after adjusted items. → Typically, no payment for individual objectives can be earned unless a 'threshold' level of Group PBT after adjusted items 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% (currently 30%) of maximum bonus potential may be payable for the achievement of individual objectives.	→ Performance is measured over a three-year period against a balanced scorecard of appropriate measures as determined by the Committee each year. This currently includes EPS and ROCE chosen as those measures which support and drive top-line and bottom-line performance in line with business strategy, as well as Total Shareholder Return (TSR). → The threshold level of vesting is 20% of the maximum. → For performance between threshold and maximum, awards vest on a straight-line basis. CHANGE FOR 2017 → **Awards may be measured against appropriate financial, non-financial and/or strategic measures. Financial measures comprise at least 50% of awards.**

EXECUTIVE DIRECTORS' REMUNERATION POLICY CONTINUED

FIGURE 2: POLICY TABLE

Executive directors may be in receipt of awards under share plans outside of the current remuneration framework detailed on pages 58 and 59; 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 a forward-looking policy, 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 pages 60 and 63). → The value of any dividends during the restricted period will be payable (see explanatory notes below).	→ While 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 2015, the Committee may choose to award share options to directors if appropriate. → Malus provisions, good leaver and change of control provisions apply (see pages 60 and 63). → 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

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 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 and shares) the value of dividends, including any dividend tax credit where applicable, 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 were approved by shareholders on 7 July 2015).

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.

CLAWBACK AND MALUS

M&S is committed to ensuring its remuneration arrangements motivate participants to strive for exceptional performance while also protecting shareholder value from the Company taking unnecessary risks. As such, clawback and malus provisions apply to the executive directors' incentive arrangements. All share awards granted from 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 for 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.

In addition, clawback provisions were introduced in 2015 and apply to cash payments made under the Annual Bonus Scheme. Awards made under any of the Company's other executive share schemes (including the Performance Share Plan) in 2015 and onwards will similarly be subject to clawback provisions. These provisions enable the Committee, in its absolute discretion, to reclaim awards paid to individuals for up to three years after the respective vesting or payment date (or up to two years in the case of PSP awards) where specified events occur. The specified events include gross misconduct or where a material misstatement of the Company's financial statements has occurred. Clawback may be effected, among other means, by requiring the transfer of shares, payment of cash or reduction of awards.

EXPLANATORY NOTES CONTINUED

PERFORMANCE CONDITIONS AND TARGET SETTING

The Committee reviews annually the measures, weightings and targets for the incentive arrangements for the executive directors. In doing so, the Committee considers a number of factors which assist in forming a view. These include, but are not limited to, the strategic priorities for M&S over the short- to long-term, shareholder feedback, the risk profile of the business and the macro-economic climate.

The Annual Bonus Scheme is measured against a balance of profitability and the delivery of key strategic areas of importance for the business. The profitability measure used is Group PBT before adjusted items as this is used internally to report and assess business performance by the Board and Operating Committee. Refer to the glossary on pages 133 to 134 for the definition of Group PBT before adjusted items, and to Note 1 of the financial statements for a description of adjusted items.

The PSP is assessed against a balance of measures identified as those most relevant to driving both sustainable top-line and bottom-line business performance, as well as providing value for shareholders. This is reflected in the EPS and ROCE measures which focus on a balance of profitability, cost control and the efficient use of capital investment.

For 2017/18, relative TSR will be introduced to ensure focus on the value delivered to shareholders. This is measured against a bespoke group of retail companies which are believed to provide a balanced portfolio of those most likely to be alternative investment choices for M&S shareholders.

Targets are set against the respective annual and long-term operating plans taking into account analysts' forecasts, M&S's strategic plans, prior year performance, estimated vesting levels and the affordability of pay arrangements. Targets are set to provide a sustainable balance of risk and reward to ensure that, while being motivational for participants, maximum payments are only made for exceptional performance.

REMUNERATION FRAMEWORK FOR THE REST OF THE ORGANISATION

M&S's philosophy is to provide a fair and consistent approach to pay. Remuneration is determined by level and is broadly aligned with those of the executive directors.

Base salaries are reviewed annually and reflect the local labour market.

All UK employees are eligible to participate in the Your M&S Pension Saving Plan on the same terms as the executive directors. In addition, all UK employees are provided with life insurance and employee discount, and may choose to participate in the Company's all-employee share schemes and salary sacrifice arrangements.

All employees are eligible to be considered to participate in an annual bonus scheme which for the majority will be a cash-based payment partially determined by Group PBT performance. For M&S's most senior executives, part of the bonus is deferred into shares for three years.

Around the top 120 of M&S's senior executives may be invited to participate in the PSP, measured against the same performance conditions as executive directors. Award levels granted are determined to be aligned with market practice and reflect an individual's level of seniority as well as their performance and potential within the business.

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 HR Director 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 in line with these arrangements.

The HR Director 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. Employees were not consulted on the development of the policy. 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 considered. The Head of Performance & Reward 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 considered when making any decisions about changes to the directors' Remuneration Policy.

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

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

GOVERNANCE 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, considering 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 58 to 65.

FIGURE 3: RECRUITMENT POLICY

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 and/or other comparable roles within the market 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 future executive directors (up to 20% of salary).
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 payments 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 expected value awarded will be no greater than the expected 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

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 75).

The Company can make a series of phased payments which are paid in monthly instalments, 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.

The Company's policy towards 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 pro-rating.

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.

FIGURE 4: KEY PROVISIONS UPON CONTRACT TERMINATION

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 payments under the Annual Bonus Scheme. Should a director be under notice or not in active service at either the relevant year end or on the date of payment, there will be no entitlement to any bonus payment, either in cash or shares. The Committee may use its discretion as described below to make a bonus award, which is normally pro-rated for time worked during the relevant financial year 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 vesting 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 pro-rated and subject to the two-year holding period post vesting.
Repatriation	→ Where a director has been recruited either to the Company or the Board 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.

NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY

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

FIGURE 5: NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY TABLE

ELEMENT	Chairman's fees	Non-executive director basic fee	Additional fees	Benefits
PURPOSE AND LINK TO STRATEGY	To provide a fair fee at a level that attracts and retains a high-calibre Chairman.	To provide a fair basic fee at a rate that attracts and retains high-calibre non-executive directors.	To provide compensation to non-executive directors taking on additional Board responsibilities.	To facilitate the execution of responsibilities and duties required by the role.
OPERATION	→ Total fee comprised of the non-executive director basic fee and the additional fee for undertaking the role. → 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, appropriately-sized listed companies, etc. CHANGE FOR 2017 → **Appropriate comparator groups may include major retailers and similarly-sized listed companies which may be ranked outside of the FTSE 25-75.**	→ 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, appropriately-sized listed companies, etc.). → The maximum aggregate non-executive director basic fees, including the Chairman, is £750,000 p.a., as set out in the Company's Articles of Association. CHANGE FOR 2017 → **Appropriate comparator groups may include major retailers and similarly-sized listed companies which may be ranked outside of the FTSE 25-75.**	→ 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.	→ In addition to the annual fee, the Chairman may be 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.

FIGURE 6: 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 and non-executive directors as detailed in the non-executive director policy table above.

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.

KEY CHANGES TO THE POLICY

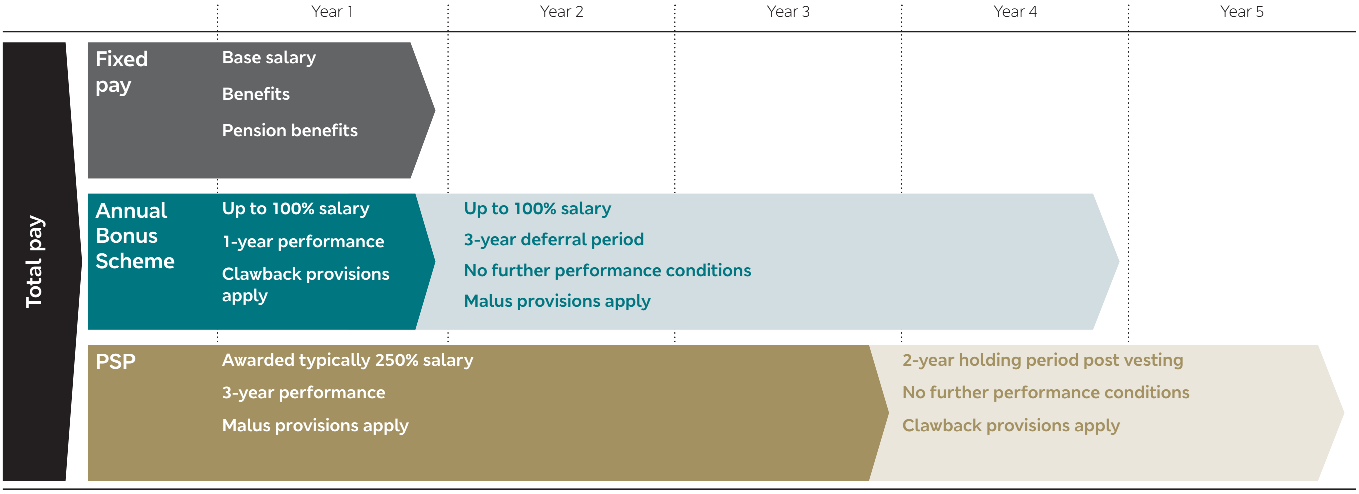
Fees	→ Fees will be compared against major retailers and similarly-sized listed companies which may be ranked outside of the FTSE 25-75 detailed in the previous policy.

EXECUTIVE DIRECTORS' REMUNERATION POLICY

FIGURE 7: SUMMARY OF REMUNERATION POLICY (TO BE APPROVED ON 11 JULY 2017)

See KPIs on p18-21

The diagram below illustrates the balance of pay and time period of each element of the proposed remuneration policy for executive directors which, if approved, will take effect after the 2017 AGM. The Committee believes this mixture of short- and long-term incentives fixed to performance-related pay is appropriate for M&S's strategy and risk profile.

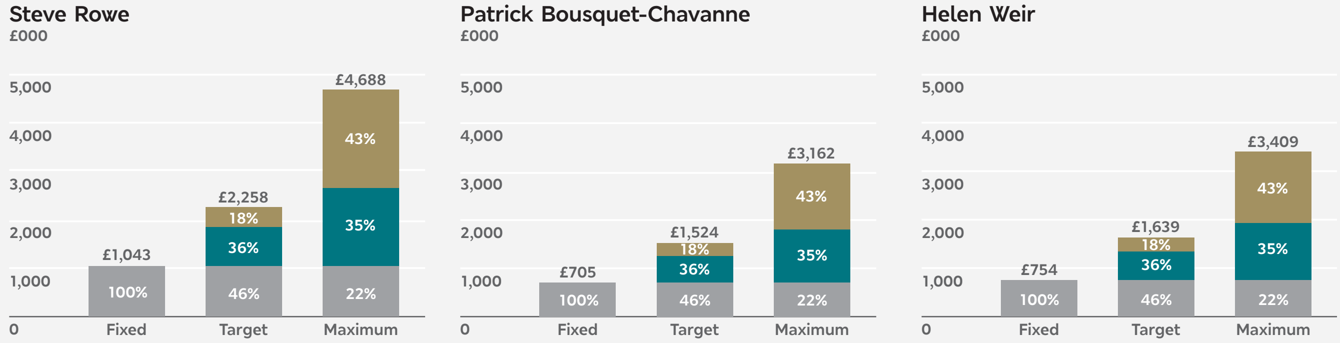


APPLICATION OF THE REMUNERATION POLICY

The charts below provide an illustration of what could be received by each of the executive directors in 2017/18. These charts are illustrative as the actual value which will ultimately be received will depend on business performance in the year 2017/18 (for the cash element of the Annual Bonus Scheme) and in the three-year period to 2019/20 (for the PSP), as well as share price performance to the date of the vesting of the share element of the Annual Bonus Scheme and PSP awards in 2020.

FIGURE 8: REMUNERATION ILLUSTRATIONS

DIRECTORS



KEY

Fixed remuneration

Includes all elements of fixed remuneration:

- Base salary (effective 1 July 2017, as shown in the table on page 67);
- Pension benefits (using the cash supplement policy on pages 58 to 59); and
- Benefits (using the value for 2016/17 included in the single figure table on page 66.

Annual Bonus Scheme (ABS)

Represents the potential value of the annual bonus for 2017/18. 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

PSP represents the potential value of the PSP to be awarded in 2017, which would vest in 2020 subject to the performance against the targets disclosed on page 71. Awards would then be held for a further two years. No share price growth is assumed.

BASIS OF CALCULATIONS

Fixed	Fixed remuneration only. No vesting under the ABS and PSP.
Target	Includes the following assumptions for the vesting of the incentive components of the package: – ABS: 50% of maximum; and – PSP: 20% of maximum.
Maximum	Includes the following assumptions for the vesting of the incentive components of the package: – ABS: 100% of maximum; and – PSP: 100% of maximum.

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REMUNERATION REPORT

EXECUTIVE DIRECTORS' REMUNERATION

The Remuneration Committee annually reviews the senior remuneration framework and considers whether the existing incentive arrangements remain appropriately challenging in the context of the business strategy, current external guidelines and a range of internal factors including the pay arrangements and policies throughout the rest of the organisation. In its discussions, the Remuneration Committee aims to ensure that not only is the framework strategically aligned to the delivery of business priorities, but also that payments made during the year fairly reflect the performance of the business. As illustrated on page 56, a significant proportion of the performance measures used in the incentive schemes are integrated with M&S's business objectives and key performance indicators detailed on pages 18 to 21.

The diagram below illustrates the extent to which each executive director achieved the maximum opportunity under the Company's incentive schemes as a result of short- and long-term performance to the end of the reported financial year and summarises the main elements of the senior remuneration framework. Further details of payments made during the year are set out in the single figure table below (Figure 10).

FIGURE 9: REMUNERATION STRUCTURE 2016/17

See KPIs on p18-21

Fixed pay +	Annual bonus +	PSP =	Total pay for 2016/17
Base salary	200% salary maximum bonus opportunity (with 50% deferral)	250% salary awarded in 2014/15	Total payments range between 35% and 37% of maximum potential
Benefits	Measured against a balance of Group PBT and individual performance.	Measured against EPS, ROCE and Revenue targets. Achievement was below threshold against these measures.	
Pension benefits			
No salary increase	Payments made are between 37% - 42% of maximum bonus opportunity	0% of award vested	

For more information see p68

For more information see p71

FIGURE 10: TOTAL SINGLE FIGURE REMUNERATION (audited)

Director	Year	Salary £000	Benefits £000	Total bonus £000	Total PSP vested £000	Pension benefits £000	Total £000
Steve Rowe	2016/17	809	32	599	0	202	**1,642**
	2015/16	549	34	230	56	137	**1,006**
Patrick Bousquet-Chavanne	2016/17	546	22	459	0	137	**1,164**
	2015/16	541	38	366	40	135	**1,120**
Laura Wade-Gery (to 12 September 2016)	2016/17	35	8	0	0	63	**106**
	2015/16	383	18	207	59	141	**808**
Helen Weir	2016/17	590	19	496	0	148	**1,253**
	2015/16	590	208	620	0	148	**1,566**

Laura Wade-Gery left the Board on 12 September 2016 and, as such, the payments above relate to those made until that date. Further details of Laura's leaving arrangements are detailed on page 75 of this report.

As disclosed in the 2015 report, for Helen Weir, benefits for 2015/16 also included £188,500, the differential value in contractual pension she forfeited to join M&S. This was paid in 12 monthly instalments.

Note that the value of awards vesting in 2015/16 has been restated to reflect the actual value of dividend equivalents and share price at the time of vesting.

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

The following sections detail additional disclosures regarding each of the components set out in the previous single figure table.

SALARY (audited)

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

As reported in last year's report, all executive directors were awarded a salary increase of 2% for July 2016 but, in support of the proposed new pay arrangements being made elsewhere in the UK organisation, they chose to decline this increase. Further, they also indicated that should an increase be awarded for July 2017, they would be similarly minded to decline that increase.

The Committee noted this intention but for completeness, discussed the executive directors' annual salary review during the year. All executive directors were eligible to be considered for a review and after taking into account several factors including the average increases to be awarded to the wider UK workforce, the Committee approved a 2% pay increase.

All executive directors have again this year declined their respective pay increases. Their next annual review will be effective in July 2018.

The table below details the executive directors' salaries as at 1 April 2017 and salaries which will take effect from 1 July 2017.

FIGURE 11: SALARIES

	Annual salary as of 1 April 2017 £000	Annual salary as of 1 July 2017 £000	Change in salary % increase
Steve Rowe	810	810	0
Patrick Bousquet-Chavanne	546	546	0
Helen Weir	590	590	0

BENEFITS (audited)

Each executive director receives a car or 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)

Executive directors currently all receive a 25% cash payment in lieu of participation in an M&S pension scheme.

Steve Rowe is a deferred member of the Marks & Spencer UK Pension Scheme. Details of the pension accrued during the year ended 1 April 2017 are shown below.

FIGURE 12: PENSION BENEFITS

	Normal retirement age	Accrued pension entitlement as at year end £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
Steve Rowe	60	148	0	2	0	4,301

The accrued pension entitlement is the deferred pension amount that Steve Rowe would receive at age 60 if he left the Company on 1 April 2017. All transfer values have been calculated on the basis of actuarial advice in accordance with the current Transfer Value Regulations. The transfer value of the accrued entitlement represents the value of the assets that the pension scheme would transfer to another pension provider on transferring the scheme's liability in respect of a director's pension benefits. It does not represent sums payable to a director and therefore cannot be added meaningfully to annual remuneration.

ANNUAL BONUS SCHEME

ANNUAL BONUS SCHEME 2016/17 (audited)

Annual performance for 2016/17 was measured against Group PBT (70% of awards) and individual performance (30% of awards). Group PBT is used in the bonus as the Group considers this to be an important measure of Group performance and is consistent with how the business performance is assessed internally by the Board and Operating Committee.

Individual performance was measured against both collective corporate performance and performance aligned with the individual's specific areas of responsibility. Individual performance measures for the year were aligned with the key strategic business priorities identified at the start of the year. Figure 13 provides an overview of the key achievements against each executive director's accountabilities over the period.

Group PBT outturn for the year was £613.8m which was above the targets set to trigger payments under both the corporate and individual elements of the Scheme.

As shown in Figure 14 below, this meant that executive directors were awarded 27.9% of maximum opportunity under the corporate element of the Scheme and on average c.70% of maximum for individual performance.

The Committee reviewed achievement to ensure that total payments were appropriate in the context of several factors. These included M&S's overall financial performance, the outturn of individual objectives, the level of bonus payable elsewhere in the business, and success towards Plan A targets and M&S values which underpinned the entire Scheme again during the year.

See Plan A Report for more detail

The Committee was satisfied that each director continued to ensure that the delivery of Plan A commitments and the behavioural ways of working supported the delivery of the business priorities. As such, the Committee determined that no adjustments were required against the underpin and that the final payments calculated were appropriate.

The Committee ensures that targets set are the relevant drivers of required annual performance. Consequently, some of the 2016/17 targets are too commercially sensitive to disclose as they are not disclosed elsewhere in the report. M&S remains committed to transparent reporting within the context of operating in a highly competitive market. The Committee will continue to assess the commercial sensitivity of targets with the aim of disclosing wherever possible, while ensuring that any measures set are those most appropriate to grow the business.

Figure 14 below sets out the Group PBT targets comprising 70% of awards and illustrates the extent to which each director achieved their three individual objectives. Total payments shown below directly correspond to the figure included in the single figure table on page 66 .

FIGURE 13: KEY ACHIEVEMENTS OF INDIVIDUAL OBJECTIVES 2016/17

Director	Collective customer (10%)	Collective strategic (10%)	Local financial (10%)
Steve Rowe	Customer satisfaction over the year improved. Net Promoter Score (NPS), which was the measure for this element of bonus, increased four points for Food and for Clothing & Home remained level, although improved amongst frequent customers and in larger stores. This led to a payment against this measure of 7.5%.	Action taken this year to simplify the business included the successful organisation transformation and restructure of Head Office. Role reductions were made and there was no overall impact on engagement scores for this population. Employee engagement within the total business increased to 81%. As a result of this performance, including above target restructure cost savings, maximum payment was made under this measure (10%).	Performance impacted by reduction in promotional and markdown activity leading to below target UK LFL Clothing & Home revenue growth of -3.4%. As a result, no payment was made against this element.
Patrick Bousquet-Chavanne			Continued improvements in online sales conversion and successful marketing campaigns to help drive store footfall. Target payment made as a result of performance against these measures.
Helen Weir			Continued to develop and strengthen a cost control culture. Necessary investment in a number of key business areas led to costs increasing by 3.8%, broadly in line with plan. Target payment was achieved.

FIGURE 14: ANNUAL BONUS SCHEME 2016/17

	CORPORATE GROUP PBT (70%)		INDIVIDUAL (30%)		TOTAL PAYMENT	
	Target/performance		Performance	Achievement		
Director	Min £593m	Max £685m			% salary	£000
Steve Rowe	27.9% of max bonus; £613.8m		Target > Stretch	58.3% of max bonus	74.0%	£599
Patrick Bousquet-Chavanne	27.9% of max bonus; £613.8m		Target > Stretch	75.0% of max bonus	84.0%	£459
Helen Weir	27.9% of max bonus; £613.8m		Target > Stretch	75.0% of max bonus	84.0%	£496

Performance assessment key

Below Threshold · Threshold > Target · Target > Stretch · Above Stretch

ANNUAL BONUS SCHEME CONTINUED

DEFERRED SHARE BONUS PLAN (audited)

Currently 50% of any bonus payment is compulsorily deferred into nil-cost options/conditional shares. These awards vest after three years subject to continued employment as well as malus provisions. The table opposite provides details of share awards made during the year in respect of bonus payments made in 2015/16. The face value of each award reflects half of the value shown for 2015/16 bonus payments in the single figure table.

As reported at the time, Laura Wade-Gery's award vested in full on the date she left the Company.

FIGURE 15: DSBP AWARDS MADE IN 2015/16

	Basis of award	Face value of award[1] £000	End of deferral period
Steve Rowe	50% of bonus	£115	22/06/2019
Patrick Bousquet-Chavanne	50% of bonus	£183	22/06/2019
Laura Wade-Gery	50% of bonus	£104	30/09/2016
Helen Weir	50% of bonus	£310	22/06/2019

1. The face value of awards is calculated as the number of nil-cost options/conditional shares awarded multiplied by the average mid-market share price on the five dealing days prior to the date of grant. For this year, the share price was calculated as £3.558, being the average share price between 15 June 2016 and 21 June 2016.

ANNUAL BONUS SCHEME FOR 2017/18

During the year, the Committee reviewed the 2017/18 Scheme, considering the drive to continue the new strategic way forward for M&S to grow the business. It determined that the structure of the 2016/17 Scheme remained appropriate and only minor amendments were necessary to ensure alignment with the delivery of the business priorities. The 2017/18 Scheme is designed to continue to focus on putting the customer at the heart of the business and driving the profitable growth of M&S while supporting the one team strategy, as has been described to stakeholders.

Performance will again be partially measured against collective corporate performance as well as performance in the individual's specific business area. As in previous years, individual performance will continue to be measured independently of Group PBT performance. However, to maintain the important principle that below a defined level of financial performance no bonus will be earned, no individual element can be earned unless a 'threshold' level of Group PBT has been achieved.

As shown below, 70% of awards will once again be measured against Group PBT under the corporate element. The remaining 30% of the bonus will be measured against individual objectives and will be a mixture of collective objectives and measures bespoke to each director. The individual element of the Scheme will comprise three equally weighted objectives identified as those key priorities required to support the delivery of the strategy. These will focus on LFL sales growth improvement, delivering financial efficiencies, enhancing our customer experience and satisfaction and building on the benefits of the customer loyalty Sparks programme and our Plan A initiatives.

The bonus performance targets for 2017/18 are deemed by the Board to be too commercially sensitive to disclose at this time but, where possible, will be disclosed in next year's report.

The Committee will continue to judge overall performance against our ecological, ethical and behavioural achievements to ensure consistency with M&S's values and behaviours. Success towards Plan A targets and the M&S values, which all employees including executive directors are required to uphold, will underpin the entire Scheme. The Committee, in its absolute discretion, may use its judgement to adjust overall final payments accordingly. Where any adjustments are made, these will be fully disclosed in next year's report.

FIGURE 16: ANNUAL BONUS SCHEME TARGETS 2017/18

	CORPORATE TARGETS	INDIVIDUAL OBJECTIVES			
	GROUP PBT	Customer	Financial	Strategic	
Director	% bonus	% bonus	% bonus	% bonus	Measure
Steve Rowe	70%	10%	10%	10%	Customer satisfaction Total UK LFL sales Strength of leadership succession
Patrick Bousquet-Chavanne	70%	10%	10%	10%	Customer satisfaction Sparks Plan A
Helen Weir	70%	10%	10%	10%	Customer satisfaction UK store estate Cost efficiencies

PERFORMANCE SHARE PLAN (PSP)

The Committee believes that long-term share awards reward executives for the delivery of long-term business goals and so makes annual awards under the PSP to incentivise executive directors and M&S's most senior managers.

PSP AWARDS MADE IN 2016/17 (audited)

As was disclosed last year, PSP awards made for 2016/17 were granted in December 2016 shortly after the announcement of the Interim results. This was to ensure that the measures and targets were aligned to the long-term strategic business plan developed by Steve Rowe and his leadership team. As we communicated to shareholders during this period of review, the strategy to create a simpler, more sustainable business, with the customer at its heart, and operating as one team will require several actions. These actions will lead to reduced profits in the short term but will deliver a stronger, more sustainable business in the longer term. These include an investment in pricing in the Clothing & Home business to ensure market competitiveness, reshaping the UK store estate and restructuring the International business. The revised financial plan also took account of the significant currency impact which has arisen since the EU Referendum, which will adversely impact profits. In approving targets, the Committee also considered the consensus forecasts for the three financial years over which the Plan would operate.

As shown in Figure 17 below, performance for these awards is measured against EPS, ROCE and cumulative free cash flow. Each performance condition is measured independently over the three-year period.

The balance of measures has been designed to drive the profitable, efficient growth of M&S while also focusing on providing returns to shareholders.

The Committee believes that the targets set for the 2016/17 PSP award are very stretching in the current environment and achievement of these levels of performance in 2018/19 would drive substantial value for shareholders. The changes made are felt necessary to provide sufficient realignment with the new strategic financial plan to ensure the PSP supports and drives the desired business performance. Consistent with previous years, for achievement of threshold performance, 20% of the relevant portion of the award will vest increasing to 100% on a straight-line basis between the achievement of threshold and maximum performance.

FIGURE 17: PERFORMANCE CONDITIONS FOR PSP AWARDS MADE IN 2016/17

	Adjusted EPS in 2018/19[1]	Average ROCE (2016/17 – 2018/19) (%)[1]	Cumulative free cash flow (2016/17 – 2018/19)[1,2]
2016/17 Award	50% of award	20% of award	30% of award
Threshold performance	28.9p	13.0%	£1,350m
Maximum performance	35.8p	16.0%	£1,650m

1. Each measure is defined in the glossary on pages 133 and 134.
2. Pre dividends and shareholder returns.

Figure 18 below summarises the award made to each of the executive directors in December 2016. The maximum award permitted under the Plan is 300% of salary although the Committee typically makes awards of 250% of salary to executive directors. For 2016/17, awards of 225% of salary were awarded to all executive directors. In approving this award level, the Committee noted that award levels for executives have typically been 250% of salary. Upon discussion, the Committee decided that, in recognition of the rebased financial plan and associated PSP performance measures, lower awards were appropriate for this particular grant only.

In line with the Remuneration Policy, awards to executive directors will vest on 5 December 2019, three years after the date of grant, to the extent that the performance conditions are met.

FIGURE 18: PSP AWARDS MADE IN 2016/17

	Basis of award	Face value of award £000	End of performance period
Steve Rowe	225% of salary	£1,823	05/12/2019
Patrick Bousquet-Chavanne	225% of salary	£1,229	05/12/2019
Helen Weir	225% of salary	£1,328	05/12/2019

When calculating the face value of awards to be granted, the number of nil-cost options/conditional shares awarded is 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 £3.28, being the average share price between 28 November 2016 and 2 December 2016.

PERFORMANCE SHARE PLAN (PSP) CONTINUED

FIGURE 19: PSP AWARDS VESTING IN 2016/17 (audited)

For directors in receipt of PSP awards granted in 2014, the awards will vest in June 2017 based on three-year performance over the period to 1 April 2017. Performance has been assessed and it has been determined that the award will lapse in full.

Details of performance against the specific targets set are shown in the table below. The total vesting values shown in Figure 20 directly correspond to the figure included in the single figure table on page 66.

			2016/17 Revenue (£)			
	Annualised adjusted EPS growth (%)	Average ROCE (%)	UK[1]	Multi-channel[2]	International[3]	
2014/15 Award	50% of award	20% of award	10% of award	10% of award	10% of award	**Total vesting**
Threshold performance	5.0%	15.0%	£8,900m	£1,100m	£1,400m	
Maximum performance	12.0%	16.5%	£9,600m	£1,300m	£1,800m	
Actual performance achieved	-1.9%	14.5%	£8,530m	£957m	£1,134m	
Percentage of maximum achieved	0	0	0	0	0	**0.0%**

1. Excluding multi-channel.
2. Net of VAT/gross of returns.
3. Excluding multi-channel/including Republic of Ireland.

FIGURE 20: VESTING VALUE OF AWARDS VESTING IN 2016/17

	On grant		At the end of performance period		
	Number of shares granted	% of salary granted	Number of shares vesting	Number of shares lapsing	**Total vesting value**
Steve Rowe	300,343	250%	0	300,343	**£0**
Patrick Bousquet-Chavanne	300,343	250%	0	300,343	**£0**
Laura Wade-Gery	315,789	250%	0	315,789	**£0**
Helen Weir	-	-	-	-	**£0**

PSP AWARDS TO BE MADE IN 2017/18

During the year, the Committee reviewed the long-term incentive framework at M&S, assessing the extent to which it remained appropriate.

As part of these discussions, the Committee deliberated on a number of possible structures including those outlined in the Investment Association's Executive Remuneration Working Group report. After extensive consideration, it was decided that the current structural arrangements remain those most appropriate to support the delivery of the necessary development and performance in M&S. That said, the Committee determined that during this period, the business must continue to ensure a focus on returns to shareholders. As such, relative Total Shareholder Return (TSR) will for this year form one-third of PSP awards, although the Committee believes that, in future years, other strategic or non-financial measures may be more appropriate and will consider this for future grants.

Relative TSR will be measured against a bespoke group of 15 companies taken from the FTSE 350 General and Food & Drug Retailers indices and are believed to be appropriately aligned to M&S's business operations to reflect the value of shareholder investment in M&S over the performance period (see Figure 22 for details of these companies).

The remainder of the award will be measured equally against EPS and ROCE. The balance of measures has been designed to ensure an appropriate focus on all three performance metrics.

As noted on the previous page, recognising last year's rebased financial plan and associated PSP performance targets, the Remuneration Committee reduced the 2016/2017 awards to 225% of salary from the typical level of 250%. However, the Committee is mindful of the need to strongly incentivise the CEO and management team to deliver the agreed strategy. In light of this, and given that EPS targets are returning to a growth trajectory, the Committee has determined that awards in 2017 should revert to the previous normal level of 250% of salary.

Performance will be measured as shown in Figure 21 below, with 20% of awards vesting for threshold performance and 100% for maximum. In line with the new policy, awards will vest three years after the date of grant, and must then be held for a further two years.

FIGURE 21: PERFORMANCE CONDITIONS FOR PSP AWARDS TO BE MADE IN 2017/18

	Adjusted EPS in 2019/20	Average ROCE (2017/18 – 2019/20) (%)	Relative TSR
2017/18 Award	1/3 of award	1/3 of award	1/3 of award
Threshold performance	31.7p	13.0%	Median
Maximum performance	38.7p	17.0%	Upper quartile

FIGURE 22: TSR COMPARATOR GROUP 2017/18 AWARD

J Sainsbury	B&M European	Kingfisher
Wm Morrisons	Debenhams	N Brown Group
Tesco	Dixons Carphone	Next
Ocado Group	Dunelm Group	Sports Direct International
ASOS	JD Sports Fashion	WHSmith

REMUNERATION REPORT CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION

FIGURE 23: DIRECTORS' SHAREHOLDINGS (audited)

The table below sets out the total number of shares held at 1 April 2017 or date of retirement from the Board by each executive director serving on the Board during the year. Shares owned outright include those held by connected persons.

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 23 May 2017. No director had an interest in any of the Company's subsidiaries at the statutory end of the year.

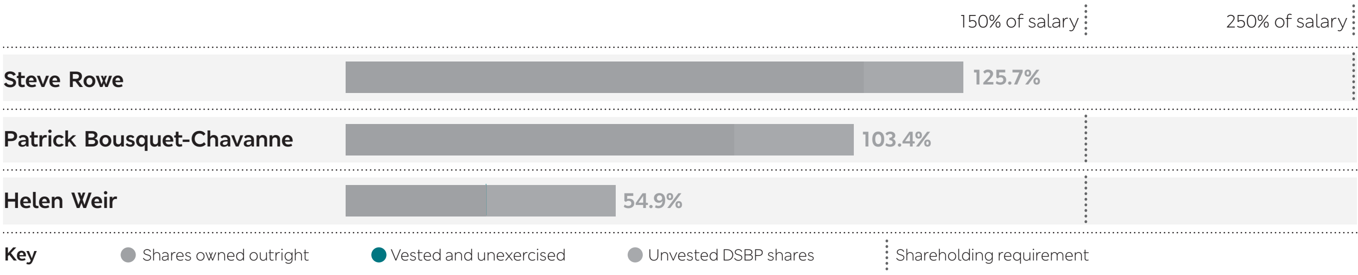
		Unvested		
		With performance conditions	Without performance conditions	
	Shares owned outright	Performance Share Plan	Deferred Share Bonus Plan	Vested but unexercised shares
Steve Rowe	253,408	1,116,809	91,932	0
Patrick Bousquet-Chavanne	123,098	930,790	71,661	0
Laura Wade-Gery (at 12 September 2016)	172,955	340,460	49,096	125,836
Helen Weir	50,000	681,252	87,057	0

FIGURE 24: SHAREHOLDING REQUIREMENTS (audited)

All executive directors are required to hold shares equivalent in value to a minimum percentage of their salary within a five-year period from their appointment date. For the CEO, this requirement is 250% of salary and for other executive directors the requirement is 150% of salary. Similar guidelines of 100% of salary also apply to directors below board level.

The chart below shows the extent to which each executive director has met their target shareholding as at 1 April 2017. For Steve Rowe, his 250% shareholding requirement is measured from the date he was appointed CEO.

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



EMPLOYEE SHARE SCHEMES

ALL-EMPLOYEE SHARE SCHEMES (audited)

Executive directors may participate in both ShareSave, the Company's Save As You Earn Scheme, and ShareBuy, the Company's Share Incentive Plan, on the same basis as all other eligible employees. Further details of the schemes are set out in note 13 to the financial statements on pages 112 and 113.

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 currently met by market purchase shares. The Company monitors the number of shares issued under these schemes and their impact on dilution limits. The Company's usage of shares compared to the dilution limits set by The Investment Association in respect of all share plans (10% in any rolling ten-year period) and executive share plans (5% in any rolling ten-year period) as at 1 April 2017 was as follows:

FIGURE 25: ALL SHARE PLANS

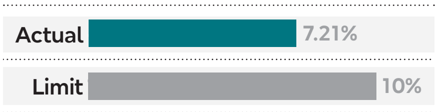
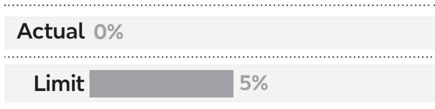


FIGURE 26: EXECUTIVE SHARE PLANS



EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 27: EXECUTIVE DIRECTORS' INTERESTS IN THE COMPANY'S SHARE SCHEMES (audited)

	Maximum receivable at 3 April 2016	Awarded during the year	Exercised during the year	Lapsed during the year	Maximum receivable at 1 April 2017 (or date of retirement)
Steve Rowe					
Performance Share Plan	861,512	555,640	14,416	285,927	1,116,809
Deferred Share Bonus Plan	110,013	32,376	50,457	0	91,932
SAYE	2,222	3,461	0	0	5,683
Total	**973,747**	**591,477**	**64,873**	**285,927**	**1,214,424**
Patrick Bousquet-Chavanne					
Performance Share Plan	772,669	374,542	10,388	206,033	930,790
Deferred Share Bonus Plan	46,448	51,408	26,195	0	71,661
SAYE	2,222	0	0	0	2,222
Total	**821,339**	**425,950**	**36,583**	**206,033**	**1,004,673**
Laura Wade-Gery					
Performance Share Plan	917,582	0	0	542,412	375,170
Deferred Share Bonus Plan	111,064	29,158	0	0	140,222
Total	**1,028,646**	**29,158**	**0**	**542,412**	**515,392**
Helen Weir					
Performance Share Plan	276,527	404,725	0	0	681,252
Deferred Share Bonus Plan	0	87,057	0	0	87,057
SAYE	2,083	3,461	0	2,083	3,461
Total	**278,610**	**495,243**	**0**	**2,083**	**771,770**

The aggregate gains of directors arising in the year from the exercise of awards granted under the PSP and DSBP totalled £303,435. The market price of the shares at the end of the financial year was 337.0p; the highest and lowest share price during the financial year were 446.1p and 285.2p respectively.

Laura Wade-Gery retired from the Board on 12 September 2016 and left the Company on 30 September 2016. Details of her leaving arrangements are set out on page 75. Her outstanding Performance Share Plan awards were pro-rated for time held on leaving. For transparency, these lapses are shown in the 'lapsed during the year' column.

Figure 28 shows the time horizons for each of the executive director's outstanding discretionary share awards (i.e. those granted under the Performance Share Plan, the Deferred Share Bonus Plan and, if it had been applicable, the Restricted Share Plan). As detailed earlier in this report, the 2014 PSP awards included within the totals shown in Figure 27 will lapse in full on their respective vesting dates. This has been reflected below in the 2017/18 column to provide an accurate and transparent overview of directors' interests in discretionary share awards.

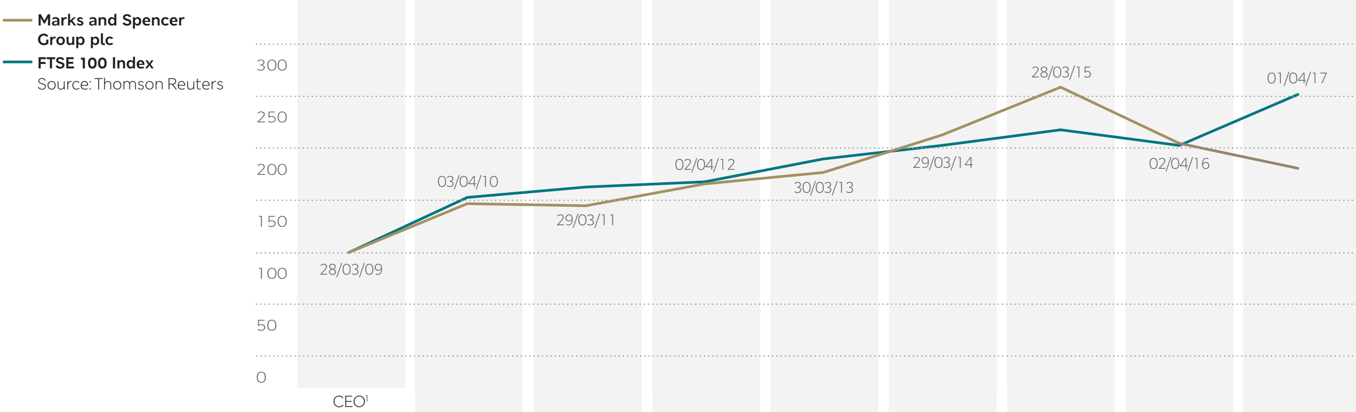
FIGURE 28: VESTING SCHEDULE OF EXECUTIVE DIRECTORS' OUTSTANDING DISCRETIONARY SHARE AWARDS

	Maximum receivable at 1 April 2017 (all discretionary schemes)	Maximum receivable in:		
		2017/18	2018/19	2019/20
Steve Rowe	1,208,741	(300,343)	320,382	588,016
Patrick Bousquet-Chavanne	1,002,451	(300,343)	276,158	425,950
Helen Weir	768,309	0	276,527	491,782

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 29: PERFORMANCE AND CEO REMUNERATION COMPARISON

This graph illustrates the Company's performance against the FTSE 100 over the past eight years. The FTSE 100 has been chosen as the appropriate comparator as M&S is a constituent of this index. The calculation of TSR is in accordance with the relevant remuneration regulations. The table below the TSR chart sets out the remuneration data for directors undertaking the role of CEO during each of the last eight financial years.



		2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
CEO single figure of remuneration (£000)	Steve Rowe	–	–	–	–	–	–	–	1,642	
	Marc Bolland	–	5,998	3,324	2,142	1,568	2,095	2,015	–	
	Stuart Rose	4,294	269	–	–	–	–	–	–	
Annual bonus payment (% of maximum)	Steve Rowe	–	–	–	–	–	–	–	36.98%	
	Marc Bolland	–	45.80%	34.00%	42.50%	0.00%	30.55%	31.90%	–	
	Stuart Rose	97.00%	57.40%	–	–	–	–	–	–	
PSP vesting (% of maximum)	Steve Rowe	–	–	–	–	–	–	–	0.00%	
	Marc Bolland	–	–	31.96%	0.00%	7.60%	4.70%	4.80%	–	
	Stuart Rose	0.00%	0.00%	–	–	–	–	–	–	

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

FIGURE 30: PERCENTAGE CHANGE IN CEO'S REMUNERATION

The table opposite sets out the change in the CEO's remuneration (i.e. salary, taxable benefits and annual bonus) compared with the change in our UK-based employees. This group has been chosen as the majority of our workforce is UK-based. The CEO comparison is Steve Rowe (for 2016/17) to Marc Bolland (for 2015/16). The percentage changes for UK employees is a consequence of organisational transformation, including reduction in senior management roles and the business investment in store staffing levels.

	% change 2015/16 – 2016/17		
	Base salary	Benefits	Annual bonus
CEO	-16.9	-1.4	-3.5
UK employees (average per FTE)	-1.1	-12.0	8.7

FIGURE 31: RELATIVE IMPORTANCE OF SPEND ON PAY

The table opposite illustrates the Company's expenditure on pay in comparison to profits before tax and distributions to shareholders by way of dividend payments and share buyback.

Total employee pay is the total pay for all Group employees. Group profit before tax and adjusted items has been used as a comparison as this is the key financial metric which the Board considers when assessing Company performance.

	2015/16 £m	**2016/17 £m**	% change
Total employee pay	1,486.7	**1,552.6**	4.4
Total returns to shareholders[1]	451.7	**377.5**	-16.4
Profit before tax and adjusted items	684.1	**613.8**	-10.3

1. Total returns to shareholders for 2015/16 includes distribution to shareholders via share buyback. For 2016/17, this figure is inclusive of special dividend.

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 32: SERVICE AGREEMENTS

In line with our policy, 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
Steve Rowe	02/04/2016	12 months/6 months
Patrick Bousquet-Chavanne	10/07/2013	12 months/6 months
Helen Weir	01/04/2015	12 months/6 months

EXECUTIVE CHANGES TO THE BOARD DURING 2016/17

DIRECTORS APPOINTED TO THE BOARD

There were no directors appointed to the Board during the year.

PAYMENTS FOR THE LOSS OF OFFICE (audited)

Laura Wade-Gery stepped down from the Board on 12 September 2016 and left M&S on 30 September 2016. Remuneration terms on leaving were in line with the approved Remuneration Policy. As was reported at the time, Laura received monthly payments of eight months' salary and benefits, which were subject to mitigation. Her unvested nil-cost options granted under the Deferred Share Bonus Plan vested in full on termination. Unvested nil-cost options awarded under the PSP were time pro-rated and will vest, subject to performance conditions on a wait and see basis at the normal vesting date.

As reported earlier in this report, PSP awards made in 2014 will lapse in full in June 2017. Laura has one further unvested PSP award, granted in 2015. This will vest next year, to the extent that performance conditions have been made and will be reported as appropriate in next year's report.

PAYMENTS TO PAST DIRECTORS (audited)

Marc Bolland retired from the Board on 2 April 2016. In line with his contractual arrangements, Marc received salary, benefits and pension benefits until the end of his notice period on 7 January 2017. Per the approved Remuneration Policy, any unvested nil-cost options awarded to Marc Bolland under the Deferred Share Bonus Plan vested in full on leaving and may be exercised in accordance with the Plan rules. He had two outstanding PSP awards on leaving, granted in June 2014 and July 2015 which were pro-rated for time held. As reported on page 71 of this report, the 2014 award will lapse in full in June 2017 as performance conditions have not been met. Performance for the 2015 award and any subsequent shares which will vest will be disclosed in next year's report.

FIGURE 33: EXTERNAL APPOINTMENTS

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

The table opposite sets out the details for these fees earned for the period 3 April 2016 to 1 April 2017.

Fees for Laura Wade-Gery's appointment at British Land Company are reported until 12 September 2016, the date she left the M&S Board.

Fees for Helen Weir's appointment at SABMiller are to 7 October 2016, the date at which the company was acquired by Anheuser-Busch InBev.

Director	Company	Fee 000
Patrick Bousquet-Chavanne	Brown-Forman	$283
Laura Wade-Gery (to 12 September 2016)	British Land Company	£30
	SABMiller	£61
Helen Weir	Rugby Football Union	£31

REMUNERATION REPORT CONTINUED

NON-EXECUTIVE DIRECTORS' REMUNERATION

FIGURE 34: NON-EXECUTIVE DIRECTORS' TOTAL SINGLE FIGURE REMUNERATION (audited)

Non-executive directors receive fees reflecting the time commitment, demands and responsibilities of the role. The table opposite details the fees paid to the non-executive directors for 2016/17 and 2015/16.

In recognition and support of the proposed new pay arrangements which were made in the UK organisation during the year, the Chairman and the non-executive directors declined to accept any increase in their fees.

Director	Year	Basic fees £000	Additional fees £000	Benefits £000	Total £000
Robert Swannell	2016/17	70	380	21	471
	2015/16	70	380	20	470
Vindi Banga	2016/17	70	30	0	100
	2015/16	70	30	0	100
Alison Brittain	2016/17	70	0	0	70
	2015/16	70	0	0	70
Miranda Curtis	2016/17	70	0	0	70
	2015/16	70	0	0	70
Andrew Fisher	2016/17	70	0	0	70
	2015/16	23	0	0	23
Andy Halford	2016/17	70	15	0	85
	2015/16	70	15	0	85
Richard Solomons	2016/17	70	0	0	70
	2015/16	68	0	0	68

FIGURE 35: NON-EXECUTIVE DIRECTORS' SHAREHOLDINGS (audited)

The non-executive directors are not permitted to participate in any of the Company's incentive arrangements. All 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 opposite details the shareholding of the non-executive directors who served on the Board during the year as at 1 April 2017 (or upon their date of retiring from the Board), including those 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 23 May 2017.

Director	Number of shares held
Robert Swannell	169,298
Vindi Banga	93,700
Alison Brittain	5,096
Miranda Curtis	5,500
Andrew Fisher	3,536
Andy Halford	21,000
Richard Solomons	5,000

FIGURE 36: NON-EXECUTIVE DIRECTORS' AGREEMENTS FOR SERVICE

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

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

Director	Date of appointment	Notice period/unexpired term
Robert Swannell	23/08/2010	6 months/3 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
Andrew Fisher	01/12/2015	3 months/3 months
Andy Halford	01/01/2013	3 months/3 months
Richard Solomons	13/04/2015	3 months/3 months

NON-EXECUTIVE DIRECTORS CHANGES TO THE BOARD DURING 2016/17

DIRECTORS APPOINTED TO THE BOARD

There were no changes to the Board during the year.

DIRECTORS RETIRING FROM THE BOARD

No directors retired from the Board during the year.

CHANGES TO THE BOARD DURING 2017/18

Robert Swannell will retire from the Board on 1 September 2017. There will be no payments for loss of office payable to Robert.

Miranda Curtis will retire from the Board on 1 February 2018. There will be no payments for loss of office payable to Miranda.

Archie Norman will join the Board as Chairman on 1 September 2017, upon Robert Swannell's retirement from the business. In line with the policy set out on page 64, Archie will receive the standard non-executive director fee plus an additional fee as the Board Chairman. Archie's total annual fee will be £600,000.

REMUNERATION COMMITTEE

REMUNERATION COMMITTEE REMIT

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

KEY RESPONSIBILITIES

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

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

REMUNERATION COMMITTEE AGENDA FOR 2016/17

REGULAR ITEMS

Pay arrangements

- Annual review of all executive directors' and senior managers' base salaries and benefits in line with Company policies and approval of any salary increase.
- Review of, and agreement to, remuneration packages for new senior managers.

Annual Bonus Scheme (ABS)

- Review of achievement of ABS Group PBT against targets.
- Review of achievement of executive directors' individual objectives for 2016/17.
- Review of the structural design, measures and approach to targets for the 2017/18 ABS.

Performance Share Plan (PSP)

- 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 plan performance against targets.
- Approval of the vesting level of the 2014/15 PSP awards.
- Approval of the measures and targets for the 2016/17 and 2017/18 PSP awards.
- Consideration of the approach to be taken for the 2017/18 PSP awards.
- Clear articulation of the Committee's reasoning and consideration for vesting and payment levels to executive directors.
- Consideration and debate of the senior remuneration framework in the context of external guidance and views on long-term incentives for the future.

Governance and external market

- Approval of the Directors' Remuneration Report for 2016/17 and review of the AGM voting outcome for the 2015/16 Report.
- Review of Committee performance in 2016/17.
- Review of Committee Terms of Reference.
- Significant consideration of institutional investors' current guidelines on executive compensation.
- Consideration of external market developments and best practice in remuneration.
- Assessment of the external environment surrounding the Company's current remuneration arrangements.
- Consideration of remuneration arrangements for the wider workforce.

Note: The full Terms of Reference for the Committee can be found on the Company's website at marksandspencer.com/thecompany.

REMUNERATION COMMITTEE ACTION PLAN 2017/18

- Ensure the continued strategic alignment of the directors' incentive arrangements.
- Debate and agree the appropriateness of the senior remuneration framework in the context of the rest of the organisation and external governance.
- Ensure a formal annual review of the wider workforce reward framework.
- Review the effectiveness and transparency of remuneration reporting.

FIGURE 37: REMUNERATION COMMITTEE MEETINGS

The following independent non-executive directors were members of the Committee during 2016/17:

MEMBER	MEMBER SINCE	MAXIMUM POSSIBLE MEETINGS	NUMBER OF MEETINGS ATTENDED	% OF MEETINGS ATTENDED
Vindi Banga (Chairman)	1 September 2011	8	8	100
Robert Swannell	1 March 2015	8	8	100
Miranda Curtis	1 February 2012	8	8	100
Richard Solomons	21 July 2015	8	8	100

REMUNERATION REPORT CONTINUED

REMUNERATION COMMITTEE CONTINUED

COMMITTEE ADVISERS

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

The Committee has not explicitly considered the independence of the advice it receives, although it regularly reflects on the quality and objectivity of this advice. The Committee is satisfied that any conflicts are appropriately managed.

PwC was appointed by the Committee as its independent advisers in 2014 following a rigorous and competitive tender process. PwC provides independent commentary on matters under consideration by the Committee and updates on legislative requirements, best practice and market practice. PwC's fees are typically charged on an hourly basis with costs for work agreed in advance. During the year, PwC charged £116,200 for Remuneration Committee matters. This is based on an agreed fee for business as usual support with additional work charged at hourly rates. PwC has provided tax, consultancy and risk consulting services to the Group in the financial year.

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

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

REMUNERATION COMMITTEE STAKEHOLDER ENGAGEMENT

The Committee is committed to ensuring that executive pay remains competitive, appropriate and fair in the context of the external market, Company performance and the pay arrangements of the wider workforce. In collaboration with the Head of Performance & Reward, the Committee gives employees, through employee representatives, the opportunity to raise questions or concerns regarding the remuneration of the executive directors. During the year, employee representatives were given the opportunity to discuss in detail the directors' pay arrangements. Details of the directors' pay arrangements were discussed in the context of the reward framework for the rest of the organisation and external factors; no concerns were raised.

SHAREHOLDER CONSULTATION

The Committee is committed to a continuous, open and transparent dialogue with shareholders on the issue of executive remuneration. The Committee was represented at the Company's annual Governance Event, held in June 2016, at which major institutional investors and representative bodies were provided with the opportunity to review and debate remuneration with the Committee Chairman, Vindi Banga.

SHAREHOLDER SUPPORT FOR THE 2015/16 DIRECTORS' REMUNERATION REPORT

At the Annual General Meeting on 12 July 2016, 98.02% of shareholders voted in favour of approving the Directors' Remuneration Report for 2015/16. The Committee believes this illustrates the strong level of shareholder support for the senior remuneration framework.

The table below shows full details of the voting outcomes for the 2015/16 Directors' Remuneration Report.

FIGURE 38: VOTING OUTCOMES FOR 2015/16 REMUNERATION REPORT

	Votes for	% Votes for	Votes against	% Votes against	Votes withheld
Remuneration Report	986,080,026	98.02	19,885,063	1.98	1,979,099

FIGURE 39: VOTING OUTCOMES FOR REMUNERATION POLICY (for 2013/14 when the policy was approved)

	Votes for	% Votes for	Votes against	% Votes against	Votes withheld
Remuneration Policy	1,012,469,256	98.27	17,840,854	1.73	9,040,797

APPROVED BY THE BOARD

VINDI BANGA CHAIRMAN OF THE REMUNERATION COMMITTEE

London, 23 May 2017

This Remuneration Policy and these remuneration reports have been prepared in accordance with the relevant provision of the Companies Act 2006 and on the basis prescribed in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ('the Regulations'). Where required, data has been audited by Deloitte and this is indicated appropriately.

OTHER DISCLOSURES

DIRECTORS' REPORT

Marks and Spencer Group plc (the "Company") is the holding company of the Marks & Spencer Group of companies (the "Group"). With our rich heritage, M&S is one of the most recognisable brands in the UK retail sector and is regularly voted as one of its most trusted. Our business is driven by a desire to inspire and innovate, to act with integrity and to stay in touch with our customers, shareholders and employees alike. These are our corporate values and they underpin everything we do. They are what make the M&S difference across the 55 territories in which we operate.

The Directors' Report (which is also the Management Report for the purpose of Disclosure and Transparency Rule (DTR) 4.1.8R) for the year ended 1 April 2017, comprises pages 34 to 83 and pages 135 to 136 of this report, together with the sections of the Annual Report incorporated by reference. As permitted by legislation, some of the matters required to be included in the Directors' Report have instead been included in the Strategic Report on pages 2 to 33, as the Board considers them to be of strategic importance. Specifically, these are:

→ **Future business developments (throughout the Strategic Report).**

→ **Research and development on p12-17.**

→ **Risk management on p30-33.**

→ **Details of branches operated by the Company on p23-24.**

Information relating to financial instruments can be found on pages 118 to 123.

For information on our approach to social, environmental and ethical matters, please refer to our Plan A Report, available online at **marksandspencer.com/plana2017**.

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

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 those reports shall be subject to the limitations and restrictions provided by such law.

INFORMATION TO BE DISCLOSED UNDER LR 9.8.4R

Listing Rule	Detail	Page reference
9.8.4R (1) (2) (5-14) (A) (B)	Not applicable	N/A
9.8.4R (4)	Long-term incentive schemes	56-65 and 69-71

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. Changes to the directors during the year and up to the date of this report are set out below. Details of directors' beneficial and non-beneficial interests in the shares of the Company are shown on pages 73 and 76. Options granted to directors under the Save As You Earn (SAYE) and Executive Share Option Schemes are shown on page 73. Further information regarding employee share option schemes is given in note 13 to the financial statements.

Name	Role	Effective date of appointment/ retirement
Laura Wade-Gery	Executive Director, Multi-channel	Retired 12 September 2016
Robert Swannell	Chairman	Retiring 1 September 2017
Miranda Curtis	Non-Executive Director	Retiring 1 February 2018
Proposed Appointment		
Archie Norman	Chairman	Effective 1 September 2017

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

The directors may from time to time appoint one or more directors. The Board may appoint any person to be a director (so long as the total number of directors does not exceed the limit prescribed in the Articles). Under the Articles, any such director shall hold office only until the next AGM and shall then be eligible for election. The current Articles also require that at each AGM at least one-third of the current directors should retire as directors by rotation; all those directors who have been in office at the time of the two previous AGMs and who did not retire at either of them must retire. In addition, a director may at any AGM retire from office and stand for re-election. However, in line with the Code and the Company's current practice, the proposed new Articles will require all directors to stand for annual election (see resolution 24). All current directors will stand for re-election at the 2017 AGM.

DIRECTORS' CONFLICTS OF INTEREST

The Company has procedures in place for managing conflicts of interest. Should a director become aware that they, or any of 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 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 1 April 2017 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.

OTHER DISCLOSURES CONTINUED

Qualifying pension scheme indemnity provisions (as defined by Section 235 of the Companies Act 2006) were in force during the course of the financial year ended 1 April 2017 for the benefit of the Trustees of the Marks & Spencer Pension Scheme, both in the UK and the Republic of Ireland.

PROFIT AND DIVIDENDS

The profit for the financial year, after taxation, amounts to £115.7m (last year £404.4m). The directors have declared dividends as follows:

Ordinary shares	£m
Special dividend of 4.6p per share Paid 15 July 2016	£75m
Paid interim dividend of 6.8p per share (last year 6.8p per share)	£110.3m
Proposed final dividend of 11.9p per share (last year 11.9p per share)	£193.3m
Total dividend of 18.7p per share for 2016/17 (last year 18.7p per share)	£303.6m

Subject to shareholder approval at this year's AGM, the final ordinary dividend will be paid on 14 July 2017 to shareholders whose names were on the Register of Members at the close of business on 2 June 2017.

SHARE CAPITAL

The Company's issued ordinary share capital as at 1 April 2017 comprised a single class of ordinary share. Each share carries the right to one vote at general meetings of the Company.

During the period, 1,763,039 ordinary shares in the Company were issued under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 258p and 432p.

Details of movements in the Company's issued share capital can be found on page 125 in note 24 to the financial statements.

RESTRICTIONS ON TRANSFER OF SECURITIES

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

VARIATION OF RIGHTS

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

RIGHTS AND OBLIGATIONS ATTACHING TO SHARES

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

POWERS FOR THE COMPANY ISSUING OR BUYING BACK ITS OWN SHARES

The Company was authorised by shareholders at the 2016 AGM to purchase in the market up to 10% of the Company's issued share capital, as permitted under the Company's Articles. No shares were bought back under this authority during the year ended 1 April 2017.

This standard authority is renewable annually; the directors will seek to renew this authority at the 2017 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 2016 AGM to allot relevant securities up to a nominal amount of £135,313,863. This authority will apply until the conclusion of the 2017 AGM. At this year's AGM, shareholders will be asked to grant an authority to allot relevant securities (i) up to a nominal amount of £135,394,136 and (ii) comprising equity securities up to a nominal amount of £270,788,271 (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 2018 or, if earlier, on 1 October 2018.

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 £20,309,120.
A special resolution will also be proposed to renew the directors' authority to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 162 million ordinary shares and sets the minimum and maximum prices which will be paid.

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.

INTERESTS IN VOTING RIGHTS

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 1 April 2017, the following information has been received, in accordance with DTR 5, from holders of notifiable interests in the Company's issued share capital.

The information provided below was correct at the date of notification; however, the date received may not have been within the current financial year. It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

Notifiable interests	Ordinary shares	% of capital disclosed	Nature of holding as per disclosure
Blackrock, Inc.	90,664,081	5.58	Indirect Interest (4.85%), Securities lending (0.65%) & CFD (0.06%)
Ameriprise Financial, Inc. and its group	82,524,463	5.079	Indirect Interest (5.054%), Direct (0.025%)
The Wellcome Trust	47,464,282	3.01	Direct Interest

Subsequent to year end, Majedie Asset Management Limited notified the Company in accordance with DTR5 of an indirect holding of 81,569,767 ordinary shares, representing 5.02% of the Company's issued share capital.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

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

- The £400m Medium Term Notes issued by the Company on 30 November 2009, the £300m Medium Term Notes issued by the Company on 6 December 2011, the £400m Medium Term Notes issued by the Company on 12 December 2012 and the £300m Medium Term Notes issued by the Company on 8 December 2016 to various institutions (MTN) and under the Group's £3bn euro Medium Term Note (EMTN) programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN.
- The $500m US Notes issued by the Company to various institutions on 6 December 2007 under Section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note.
- The $300m US Notes issued by the Company to various institutions on 6 December 2007 under Section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note.
- The amended and restated £1.1bn Credit Agreement dated 16 March 2016 (originally dated 29 September 2011) between the Company and various banks contains a provision such that, upon a change of control event, unless new terms are agreed within 60 days, the facility under this agreement will be cancelled with all outstanding amounts becoming immediately payable with interest.
- The amended and restated Relationship Agreement dated 6 October 2014 (originally dated 9 November 2004 as amended on 1 March 2005), between HSBC and the Company and relating to M&S Bank, contains certain provisions which address a change of control of the Company. Upon a change of control the existing rights and obligations of the parties in respect of M&S Bank continue and HSBC gains certain limited additional rights in respect of existing customers of the new controller of the Company. Where a third party arrangement is in place for the supply of financial services products to existing customers of the new controller, the Company is required to procure the termination of such arrangement as soon as reasonably practicable (while not being required to do anything that would breach any contract in place in respect of such arrangement).

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

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

EMPLOYEE INVOLVEMENT

We remain committed to employee involvement throughout the business. Employees are kept well informed of the performance and strategy of the Group through personal briefings, regular meetings, emails and broadcasts by the Chief Executive and members of the Board. These take place at key points in the year to all Head Office, distribution centre and store management employees. In addition, store colleagues can also hear business briefings by telephone and there are quarterly CEO/CFO trading updates broadcast by Skype to our store management teams. These communications are supplemented by various employee publications including M&S World magazine, Plan A updates and DVD presentations.

Our Making Every Moment Special employee engagement programme was launched last summer with two hours of training to empower store colleagues to put customers at the heart of the business and to make decisions based on customers' specific needs. The programme engaged with 70,000 employees through 75 regional leadership events and 1,500 store events, taking ideas from colleagues from across the business and has had tremendous results.

More than 3,500 employees from across every store, distribution centre and Head Office location are elected to our Business Involvement Groups (BIG) to represent colleagues in two-way communication and consultation with the Company. These representatives have continued to play a key role in a number of business changes this year. The National BIG Chair meets with the Group Chairman and CEO regularly, as well as providing updates to and attending Board meetings annually. In addition, directors and senior management regularly attend the National BIG meetings. They also visit stores and discuss matters of interest and concern to both employees and the business through meetings with local BIG representatives, listening groups and informal discussions.

The 22nd meeting of the European Works Council (EWC) (established in 1995) will take place in November 2017. The EWC provides an additional forum for informing, consulting and involving employee representatives from the countries in the European Economic Area. The EWC has the opportunity to be addressed by the Chief Executive, International Director and other senior members of the Company on issues that affect the European business.

Share schemes are a long-established and successful part of colleagues' total reward packages, encouraging and supporting employee share ownership. The Company operates both an all employee Save As You Earn Scheme and Share Incentive Plan. Approximately 25,000 employees currently participate in ShareSave, the Company's Save As You Earn Scheme. Full details of all schemes are given on pages 112 and 113.

There are websites for both pension schemes – the defined contribution Scheme (Your M&S Pension Saving Plan) and the defined benefit scheme (the M&S Pension Scheme) – which are fully accessible to employees and former employees who have retained benefits in either scheme. Employees are updated as needed with any pertinent information on their pension savings.

In April 2016, the business launched a campaign which engaged all employees in putting forward their ideas for how M&S could drive down costs and reduce inefficiency. The Crunch Costs campaign received an overwhelming response with colleagues submitting 1,300 ideas from stores and offices. So far, the implemented ideas have generated savings of £20m, which has enabled the business to add over 3,000 colleagues to our stores. By recognising and celebrating employee ideas and contributions, the Company has driven high levels of engagement and motivation from employees. The most recent results of the Your Say employee survey show that the employee engagement score has increased by three percentage points on the previous year, and currently sits at 81%.

OTHER DISCLOSURES CONTINUED

Over 1,500 employees took part in Wellbeing Goals, a new initiative launched to inspire people to take a more holistic look at their overall wellbeing and follow simple steps each week to improve what matters to them, whether from a physical, mental, social or financial perspective. The business has also taken steps to connect the two important agendas of Diversity and Inclusion with Wellbeing in a bold two-week campaign inviting people to Be Yourself at work. This was supported by hosted events and colleague videos on what it means to be yourself at work and how inclusivity at work positively impacts wellbeing.

The Company continued to promote its free service provided by a confidential team of mental wellbeing specialists, LiveWellWorkWell, by distributing wallet cards with details of the service across all stores and business areas. The Company also invested in supporting the Buddy Network, a peer-to-peer support group, to provide colleagues with a way to share experiences and support each other in managing physical or mental health conditions alongside work.

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. The Company's policy is 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 or civil partner status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit. The Company is responsive to the needs of its employees, customers and the community at large. M&S is an organisation which uses everyone's talents and abilities and where diversity is valued.

M&S was one of the first major companies to remove the default retirement age in 2001 and has continued to see an increase in employees wanting to work past the state retirement age. Our oldest employee is 90 years old and joined the business at age 80.

In April 2017, the Company once again featured in The Times Top 50 Employers for Women, highlighting how equal opportunities are available for all at M&S.

Employee-led diversity networks give a voice to under-represented groups, provide peer-to-peer support and help to influence the Company to become more inclusive. These networks cover gender, ethnicity, disability, parents and sexual orientation/gender identity. Each network has support from a senior sponsor. Throughout the year employees have been involved in celebrating International Women's Day, Pride, Black History Month and the International Day of Persons with Disabilities.

EMPLOYEES WITH DISABILITIES

The Company is clear in its policy that people with disabilities should have full and fair consideration for all vacancies.

M&S has continued to demonstrate its 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. M&S will actively retrain and adjust employees' environments where possible to allow them to maximise their potential and will continue to work with external organisations to provide workplace opportunities through our innovative Marks & Start scheme and by working closely with Jobcentre Plus. The Marks & Start scheme was introduced into the distribution centre at Castle Donington in 2012/13, working with Remploy to support people with disabilities and health conditions into work.

GROCERIES SUPPLY CODE OF PRACTICE

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

M&S submitted its report, covering the period from 3 April 2016 to 1 April 2017, to the Audit Committee on 18 May 2017. In accordance with the Order, a summary of that compliance report is set out below:

M&S believes that it has complied in full with GSCOP and the Order during the relevant period. No formal disputes have arisen during the reporting period. Two allegations regarding potential breaches of GSCOP were raised by suppliers during the relevant period. Neither is being pursued and both are considered closed by M&S.

TOTAL GLOBAL M&S GREENHOUSE GAS EMISSIONS 2016/17

The disclosures required by law and additional information relating to the Group's greenhouse gas emissions are included in the table below. For full details of calculations and performance against our 2006/07 voluntary baseline, see the 2017 Plan A Report.

	2016/17 000 tonnes	2013/14 000 tonnes	% change
Direct emissions (scope 1)	185	168	+10
Indirect emissions from energy (scope 2)	293	340	-14
Total statutory emissions (scope 1 and 2)	**478**	**508**	**-6**
Transport, energy T&D, waste and travel emissions (scope 3)	48	59	-19
Total gross/location-based emissions	**526**	**567**	**-7**
Carbon intensity measure (per 1,000 sq ft of salesfloor)	**26**	**30**	**-13**
Green tariffs and bio-methane procured	305	302	+1
Remaining market-based emissions	**221**	**265**	**-17**
Carbon offsets	221	265	-17
Total net operational emissions	**0**	**0**	**Level**

Emissions are from operationally controlled activities in accordance with WRI/WBCSD GHG Reporting Protocols (Revised edition) and 2014 Scope 2 Guidance using 2015 DEFRA/DECC conversion factors. 2013/14 is the mandatory baseline year. As these emissions account for less than 10% of M&S's total carbon footprint, we also engage with suppliers and customers to address the most significant sources.

POLITICAL DONATIONS

The Company did not make any political donations or incur any political expenditure during the year ended 1 April 2017. M&S has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

GOING CONCERN

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 2 to 25 as well as the Group's principal risks and uncertainties as set out on pages 32 and 33. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

See **note 20** to the Financial Statements for more information on our Facilities

LONG-TERM VIABILITY STATEMENT

The directors have assessed the prospects of the Company over a three-year period to 28 March 2020. This has taken into account the business model, strategic aims, risk appetite, and principal risks and uncertainties, along with the Company's current financial position. Based on this assessment, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period under review.

See our approach to assessing **long-term viability** on p31

AUDITOR

Resolutions to reappoint Deloitte LLP as auditor of the Company and to authorise the Audit Committee to determine its remuneration will be proposed at the 2017 AGM.

ANNUAL GENERAL MEETING

The AGM of Marks and Spencer Group plc will be held at Wembley Stadium, Wembley, London on 11 July 2017 at 11am. The Notice of Meeting is given, together with explanatory notes, in the Performance Overview booklet which accompanies this report.

DIRECTORS' RESPONSIBILITIES

The Board is of the view that the Annual Report should be truly representative of the year and provide shareholders with the information necessary to assess the Group's position, performance, business model and strategy. This cannot be achieved by merely reviewing the final document at the end of the preparation process. The Board ensured that its requirements were clearly communicated from the outset to each of the departments involved in the production of the Annual Report.

The Board has advised that the narrative reports should contain the key information needed by investors and other users of the report and should avoid being promotional in nature. Furthermore, the narrative reports in the front and the accounting information in the back of the report should be consistent and the teams involved in its production work closely together to achieve this. For an independent opinion, the Board also requested the Audit Committee review the Annual Report and provide feedback. The Committee's opinion on whether the report is fair, balanced and understandable is on page 50.

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

→ Select suitable accounting policies and then apply them consistently.

→ Make judgements and accounting estimates that are reasonable and prudent.

→ State whether applicable IFRSs (as adopted by the EU) have been followed, subject to any material departures disclosed and explained in the financial statements.

→ Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Each of the current directors, whose names and functions are listed on pages 36 and 37 of the Annual Report, confirms that, to the best of their knowledge:

→ The Group financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.

→ The Management Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

→ The Annual Report, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who are Directors at the time when this Directors' Report is approved 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 he/she has taken all the steps that he/she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors' Report was approved by a duly authorised committee of the Board of Directors on 23 May 2017 and signed on its behalf by

AMANDA MELLOR GROUP SECRETARY

London, 23 May 2017

INDEPENDENT AUDITOR'S REPORT

OPINION ON FINANCIAL STATEMENTS OF MARKS AND SPENCER GROUP PLC

IN OUR OPINION:

the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 1 April 2017 and of the Group's profit for the 52 weeks then ended;

the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union;

the parent Company financial statements have been properly prepared in accordance with IFRS 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.

The financial statements comprise:

- the Consolidated Income Statement,
- the Consolidated Statement of Comprehensive Income,
- the Consolidated and Company Statements of Financial Position,
- the Consolidated and Company Statements of Changes in Equity,
- the Consolidated and Company Statements of Cash Flows,
- the reconciliation of net cash flow to movement in net debt note, and the related notes 1 to 28 and C1 to C6.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRS as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

SUMMARY OF OUR AUDIT APPROACH

KEY RISKS

The key risks that we identified in the current year were:

- Accounting for exit costs of certain of the wholly owned international businesses
- Presentation of adjusted performance measures of the financial statements
- Impairment of UK store assets
- UK Clothing & Home inventory provision
- Retirement benefits
- Manual adjustments to reported revenue
- Accounting for supplier rebates

The description of risks below should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 50 and 51. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Within this report, any new risks are identified with !, any risks which are the same as the prior year identified with » and any risks which have increased compared with the prior year are identified with ︽.

MATERIALITY

We determined materiality for the Group to be £24.5 million (2016: £30 million), based on a calculation of 5% of profit before tax adjusted for certain adjusted items due to the nature and significance of these adjusted items.

SCOPING

We performed a full scope audit on six components of the business representing 97% of the Group's revenue, 89% of the Group's profit before tax and 85% of the Group's net assets.

SIGNIFICANT CHANGES IN OUR APPROACH

Our audit approach is consistent with the previous year, with the exception of:

- We have included an additional risk in respect of the accounting for the exit costs of certain of the wholly owned international businesses, given the significance of the charge incurred during the year and the level of estimation uncertainty; and
- Specific audit procedures were performed on certain significant balances for China and analytical review procedures were completed for Greece; in the previous year these components were subject to full audits.

SEPARATE OPINION IN RELATION TO IFRS AS ISSUED BY THE IASB

As explained in note 1 to the financial statements, in addition to complying with its legal obligation to apply IFRS as adopted by the European Union, the Group has also applied IFRS as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRS as issued by the IASB.

GOING CONCERN AND THE DIRECTORS' ASSESSMENT OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE GROUP

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1 to the financial statements and the directors' statement on the longer-term viability of the Group contained within the "Other disclosures" section on page 31.

We have nothing material to add or draw attention to in relation to:

- the directors' confirmation on page 30 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 32-33 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation on page 31 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

RISK

ACCOUNTING FOR THE EXIT COSTS OF CERTAIN OF THE WHOLLY OWNED INTERNATIONAL BUSINESSES

1

RISK DESCRIPTION

As set out on page 10 of the Strategic Report, management announced their proposal to close 53 stores across 10 international markets over the period from November 2016 to October 2017. The Group has recognised a cost of £131 million in the year in respect of exit costs, which is reported as an adjusted item in the Group's alternative performance measures.

When calculating the exit costs, management has estimated future settlement and exit costs where these are not yet known. The costs recognised in the period primarily relate to:

- **Property exit costs:** estimation uncertainty arises in management's assessment of likely exit costs where these may differ from the contracted future obligations under lease agreements.
- **Staff restructuring costs:** in certain territories, estimation uncertainty arises in the application of local staff restructuring and redundancy laws where there are a range of possible outcomes dependent on factors outside the group's control.

Further detail of these estimates are included in the sources of estimation uncertainty disclosure in note 1.

Given the magnitude of the exit costs and the level of estimation uncertainty, we have directed a significant level of our senior audit resource to assessing the valuation of the costs recorded during the year.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK

We have evaluated the assumptions applied in calculating the charge for the year and, where possible, agreed inputs to the cost calculations to supporting factual evidence.

Our audit effort was focussed on the two key sources of estimation uncertainty described above.

- **Property exit costs:** we obtained an understanding of management's assumptions in deriving estimated exit costs for a sample of properties that are being closed, assessing these in the context of the possible maximum obligations under the various lease arrangements. This included meeting with internal property experts, reviewing lease agreements and any correspondence with landlords, consulting with our own property experts in certain local markets, and reviewing the actual settlements for stores where the exit negotiations had concluded.
- **Staff restructuring costs:** we evaluated the calculations for redundancy payments, agreeing the methodology applied to local laws and regulations for all significant countries. We tested the accuracy of the underlying data in these calculations on a sample basis. Where a range of possible outcomes exists, we performed a sensitivity analysis on the key inputs to the valuation model and consulted with our local experts in those countries to validate key assumptions.

Key observations

The outcome of future exit negotiations and other future events gives rise to a source of estimation uncertainty. We consider the restructuring charge recorded in the year to have been appropriately calculated. We have reviewed the disclosure in note 1 and consider it to be appropriate.

INDEPENDENT AUDITORS' REPORT CONTINUED

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

RISK

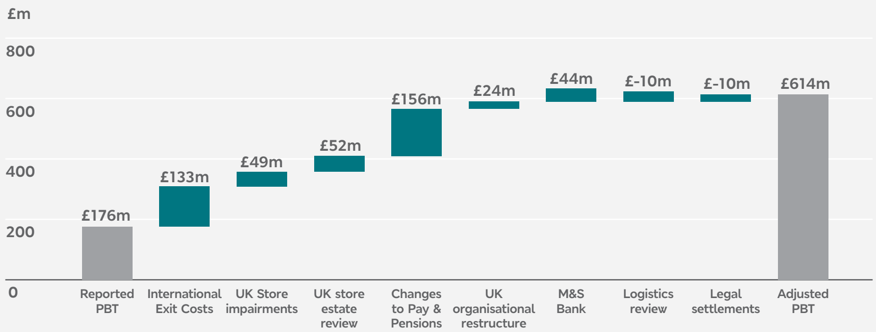
PRESENTATION OF ADJUSTED PERFORMANCE METRICS

2

RISK DESCRIPTION

The presentation of income and costs within adjusted measures (to derive 'adjusted profit before tax') under IFRS is judgemental, with IFRS only requiring the separate presentation of material items. Judgement is exercised by management in determining the classification of items as adjusted.

In the Group's reported results, significant adjustments have been made to statutory profit before tax of £176 million to derive adjusted profit before tax of £614 million. Explanations of each adjustment are set out in notes 1 and 5 to the financial statements, and are summarised in the graphic to the right:



In calculating the reported adjusted measures, there are two risks which may result in the adjusted profit measure being misstated and therefore not being reliable to users of the financial statements:

- items may be included in the adjustments inappropriately, distorting the reported adjusted earnings; and
- items may be omitted from the adjustments which are significant in nature and/or quantum to the reported adjusted earnings.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK

We evaluated the appropriateness of the inclusion of items, both individually and in aggregate, within adjusted items, including assessing the consistency of items included year on year and ensuring adherence to IFRS requirements and latest Financial Reporting Council ("FRC") guidance. We also agreed these items to supporting evidence.

We assessed all items, either highlighted by management or identified through the course of our audit, which were regarded as significant in nature and/or quantum, but included within adjusted profit to ensure that these are not material either individually or in aggregate. For all adjustments recorded in calculating profits before adjusted items, we discussed the appropriateness of the item with the Audit Committee and any disclosure considerations.

Key observations

We are satisfied that the items excluded from profit before adjusted items and the related disclosure of these items in the financial statements are appropriate.

RISK

IMPAIRMENT OF UK STORE ASSETS

3

RISK DESCRIPTION

On 8 November 2016, the Group announced that a full review of the UK store estate was to be performed. As a result, we consider the risk of impairment of UK store assets has increased due to the impact of decisions resulting from the store review. In addition, continuing economic uncertainty, depreciation of sterling, increases in business rates, the introduction of the National Living Wage and the cost of the Apprenticeship Levy impact the trading performance of the UK store estate.

As described in the Accounting Policies in note 1 and in note 15 to the Financial Statements, the Group held £4,838 million (2016: £5,027 million) of property, plant and equipment at 1 April 2017. Included within this value are assets which relate to UK Stores and in light of the UK store portfolio review and trading performance in certain stores, there is a risk that the assets held in, and associated with, each store are not recoverable. Management has performed a full impairment assessment for all stores, other than those within their shelter period (see below), to determine if the carrying value of these UK assets is supported. This assessment has included, where appropriate, the Group's ongoing strategic review of the UK store estate, as described on page 10 of the Strategic Report. As a result, a total charge of £101 million has been recorded in respect of impairments and closure provisions.

When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations which rely on the directors' assumptions and estimates of future trading performance.

The key assumptions applied by the directors in the impairment reviews are:

- forecast periods in the context of strategic decisions made to exit a location;
- future revenue growth;
- discount rates;
- gross margin; and
- store costs, including the impact of the National Living Wage.

The directors consider that each retail store constitutes its own cash generating unit ('CGU'), with the exception of the outlet stores which are used to clear old season Clothing & Home inventories at a discount. The outlet stores are considered to represent one CGU in aggregate and strategic stores are evaluated as part of a country-wide impairment review.

The group's accounting policy sets out a relevant shelter period for new stores to be taken into account when assessing indicators of impairment during initial years of trading to enable the store to establish itself in the market.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

RISK

IMPAIRMENT OF UK STORE ASSETS CONTINUED

3

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK

We considered the appropriateness of the methodology applied by the directors in calculating the impairment charges, and the judgements applied in determining the CGUs of the business. In addition, we assessed the design and implementation of controls in respect of the impairment review process, and considered the adequacy of disclosures made in the financial statements.

We assessed the impairment models and calculations by:

- checking the mechanical accuracy of the impairment models;
- assessing the discount rates applied to the impairment reviews with support from our internal valuations specialist, and comparing the rates to our internal benchmark data;
- comparing forecast growth rates to economic data; and
- evaluating the information included in the impairment models through our knowledge of the business gained through reviewing trading plans, strategic initiatives, minutes of property board and investment committee meetings, and meeting with regional store managers and senior trading managers from key product categories and our retail industry knowledge.

We assessed the appropriateness of the shelter period for each store opened within that time frame, and compared the original investment case for the store against its current trading performance. Where stores were trading significantly below the original case, we considered the evidence available to support future improvements in performance, specifically by assessing the trading plans and actions being taken on an individual store basis.

Key observations
We assessed the level of impairment recorded in respect of the UK business and are satisfied that the judgements applied by management and the level of impairments recorded in the year are appropriate.

RISK

UK CLOTHING & HOME INVENTORY PROVISION

4

RISK DESCRIPTION

At 1 April 2017, the Group held UK Clothing & Home inventories of £541 million (2016: £583 million). As described in the Accounting Policies in note 1 to the Financial Statements, inventories are carried at the lower of cost and net realisable value. As a result, the directors apply judgement in determining the appropriate provisions for obsolete stock based upon a detailed analysis of old season inventory, net realisable value below cost based upon plans for inventory to go into sale and stock loss based upon the run rate from recent inventory counts.

We consider the assessment of inventory provisions within UK Clothing & Home to require the most judgement based on the level of inventory held and recent trading performance.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK

We obtained assurance over the appropriateness of management's assumptions applied in calculating the value of the inventory provisions by:

- checking the effectiveness of key inventory controls operating across the UK business, including those at 12 distribution centres and 13 retail stores;
- attending inventory counts at 12 distribution centres and 13 retail stores;
- checking for a sample of individual products that invoiced costs have been correctly recorded and that the allocation of directly attributable costs has been correctly calculated;
- comparing the net realisable value, obtained through a detailed review of sales subsequent to the year-end using audit analytics, to the cost price of inventories to check for completeness of the associated provision;
- performing audit analytics on stock holding and movement data to identify product lines with indicators of low stock turn or significant levels of aged stock; and
- meeting with buyers to validate the assumptions applied by management compared to the current purchasing strategy and ranging plans.

We evaluated consumer trends identified through benchmarking and external market data to challenge the assumptions underlying sales forecasts by category to assess the completeness of provisions for obsolescence.

Key observations
The results of our testing were satisfactory and we concur that the level of UK inventory provisions is appropriate.

INDEPENDENT AUDITORS' REPORT CONTINUED

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

RISK

RETIREMENT BENEFITS

5

RISK DESCRIPTION

As described in the Accounting Policies in note 1 and in note 11 to the Financial Statements the Group has a defined benefit pension plan for its UK employees, which is closed to new entrants, and a funded defined benefit pension scheme in the Republic of Ireland, where no new benefits have accrued since 31 October 2013, therefore the key risk relates to the UK scheme only.

At 1 April 2017, the Group recorded a net retirement benefit asset of £702 million (2016: £833 million), being the net of scheme assets of £10,135 million (2016: £8,515 million), scheme liabilities of £9,433 million (2016: £7,682 million) and unfunded retirement benefits of £9 million (2016: £9 million). The Group net retirement benefit asset has shown significant volatility, as the valuation is sensitive to changes in key assumptions such as the discount rate, inflation and mortality estimates. In addition, curtailment charges have been recognised in relation to the closure of the defined benefit pension scheme, which occurred during the year, to future accrual.

The setting of these assumptions is complex and an area of significant judgement; changes in any of these assumptions can lead to a material movement in the net surplus. The increase/(decrease) in scheme surplus caused by a change in each of the key assumptions is set out below:

	2017 £m	2016 £m
A decrease in the discount rate of 0.25%	**(70)**	(90)
A decrease in the inflation rate of 0.25%	**(20)**	20
A decrease in the average life expectancy of one year	**370**	300

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK

We evaluated the directors' assessment of the assumptions made in the valuation of the scheme liabilities, and evaluated the information contained within the actuarial valuation reports for each scheme. We assessed the design and implementation of controls in respect of the pension scheme valuation process.

We tested the membership census data used in the valuation of the schemes and, with support from our own actuarial specialists, we considered the process applied by the Group's actuaries, the scope of the valuation performed and the key assumptions applied and evaluated their expertise. We benchmarked and performed a sensitivity analysis on the key variables in the valuation model, including:

- inflation rates;
- mortality rates; and
- discount rates.

We assessed the accounting treatment applied to the scheme's closure to future accrual and the resulting curtailment charge.

Key observations

We are satisfied that all assumptions applied in respect of the valuation of the scheme assets and liabilities are appropriate.

RISK

MANUAL ADJUSTMENTS TO REPORTED REVENUE

6

RISK DESCRIPTION

As described in the Accounting Policies in note 1 to the Financial Statements, the group's revenue recognition policies require the directors to make a number of adjustments and estimates in determining the reported revenue for the period. The most significant adjustments are:

- gift cards, vouchers and loyalty schemes – the directors apply an expected redemption rate to the total value of gift cards, vouchers and loyalty points in issue based on historic trends.
- returns – customers are entitled to return most products up to 35 days after purchase, giving rise to a risk that sales recognised during the period will be reversed in the next financial period.

The directors apply judgement in determining the provision required for returns based on actual sales data and recent product return rates. Returns from online sales are commonly at a higher level than traditional store retailing, resulting in this judgement becoming more significant in determining the level of provision required.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK

We considered each revenue-impacting manual adjustment individually, and assessed the appropriateness of the assumptions and judgements applied to each. We assessed the design and implementation of controls in respect of these revenue judgements, in addition to testing the effectiveness of key revenue controls operating across the UK business.

For the key assumptions used in the gift card and voucher, and loyalty scheme provisions, we assessed the historic rates of redemption and compared these to the directors' judgements.

We assessed the appropriateness of the methodology and inputs used in calculating the returns provision.

Key observations

We are satisfied that the key assumptions applied in calculating the returns, gift card, voucher and loyalty scheme provisions are appropriate.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

RISK

ACCOUNTING FOR SUPPLIER REBATES

7

RISK DESCRIPTION

As described in the Accounting Policies in note 1 and note 17 to the Financial Statements, the Group recognises a reduction in cost of sales as a result of amounts receivable from suppliers, primarily comprising contributions in relation to promotions in the Food business, strategic volume moves and some annual volume-based rebates. The majority of these contributions tend to be small in unit value but high in volume and span relatively short periods of time, although these can be across the financial year end. There are a small number of larger arrangements, which relate to multi-year periods.

Judgement is required in determining the period over which the reduction in cost of sales should be recognised, requiring both a detailed understanding of the contractual arrangements themselves as well as complete and accurate source data to apply the arrangements to.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK

We tested that amounts recognised were accurate and recorded in the correct period based on the contractual performance obligations by agreeing a sample to individual supplier agreements. We also conducted interviews with a range of buyers and trading managers. In addition, we circularised a sample of 15 suppliers to test whether the arrangements recorded were complete.

We performed revenue and margin analysis to understand detailed trends by product category in order to identify apparent anomalies which may indicate potential rebate income errors. Such anomalies were investigated to assess whether they were indicative of a mis-application of contractual terms or other calculation errors.

We also tested a sample of rebates recognised pre and post-year end to test the completeness and accuracy of accrued supplier income at 1 April 2017.

Key observations

The results of our testing were satisfactory. We consider the disclosure given around supplier rebates to provide an accurate understanding of the types of rebate income received and the impact on the statement of financial position as at 1 April 2017.

OUR APPLICATION OF MATERIALITY

We determined materiality for the group to be £24.5 million.

We reported all audit differences in excess of £1m.

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £24.5 million (2016: £30 million), based on a calculation of 5% of profit before tax adjusted for certain adjusted items due to the nature and significance of these items.

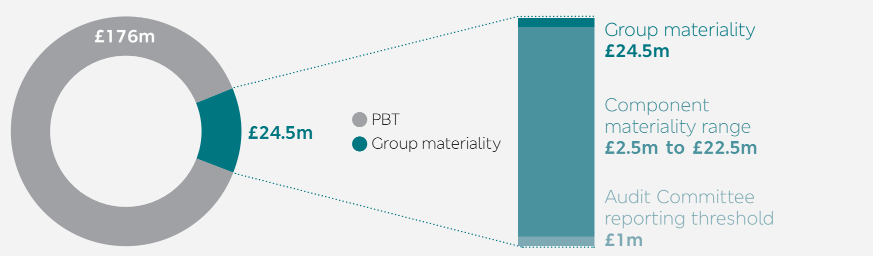
The adjusted profit used in our determination of materiality was £479 million, which is £301 million higher than statutory profit before tax of £176 million. The items we excluded from our determination are listed below, and explained further in note 5 to the financial statements:

- Changes to pay and pensions – £156 million
- International store closures and impairments – £131 million
- Strategic programmes – UK organisation and logistics – £14 million

The materiality applied by the component auditors (see below) ranged from £2.5 million to £22.5 million (2016: £2 million to £27 million), depending on the scale of the component's operations and our assessment of risks specific to each location.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1 million (2016: £1 million) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

MATERIALITY



AN OVERVIEW OF THE SCOPE OF OUR AUDIT

We performed a full scope audit on six components representing 97% of the Group's revenue, 89% of the Group's profit before tax and 85% of the Group's net assets.

We continue to adopt a rotational approach to visiting the significant locations of the Group's activities.

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the group level. A summary of the Group's retail operations is set out below (including the UK business).

Number of countries	2017	2016
Wholly owned retail businesses	**12**	17
Retail joint ventures	**2**	2
Retail franchise operations*	**31**	33
Website only territories	**7**	7
Total	**52**	59

* includes two countries where wholly owned businesses also operate

Based on our assessment we focused our Group audit scope primarily on the audit work at six wholly owned locations: United Kingdom, Republic of Ireland, Czech Republic, France, China and Hong Kong, and the joint venture in India. All of these were subject to a full audit, with the exception of China where specific audit procedures were performed on certain significant balances. In the prior year, Greece was subject to a full audit; however is subject to analytical review procedures in the current year following changes to the Group's international strategy. Analytical review procedures were completed for the current year for those locations not subject to full audit procedures.

These components were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. All other wholly owned and joint venture businesses were subject to analytical review procedures. Whilst we audit the revenues received by the Group from franchise operations, which account for 3% (2016: 3%) of the Group's revenue, we do not audit the underlying franchise operations as part of our Group audit.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit.

	Revenue	Profit Before Tax	Net Assets
Full audit	97%	89%	85%
Specific audit procedures	2%	7%	8%
Analytical procedures	1%	4%	7%

The most significant component of the Group is its retail business in the United Kingdom, which accounts for 89% (2016: 90%) of the Group's reported revenue of £10,622 million, and generates operating profit of £253 million (2016: £627 million) which is offset by operating losses from the international segment resulting in a Group operating profit of £253 million (2016: £584 million). The Group audit team performs the audit of the UK business without the involvement of a component team. During the course of our audit, the Group audit team, conducted 12 distribution centre and 13 retail store visits in the UK to understand the current trading performance and, at certain locations, performed tests of internal controls and validated levels of inventory held.

We operate a programme of planned visits to significant locations so that a senior member of the Group audit team visits each of the components subject to a full audit or specific audit procedures at least once every two years, and the most significant of them at least once a year.

In addition to our programme of planned visits, we send detailed instructions to our component audit teams, include them in our team briefings, discuss their risk assessment, attend closing meetings, and review their audit working papers.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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 Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.
- In the light of the knowledge and understanding of the group and the company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

ADEQUACY OF EXPLANATIONS RECEIVED AND ACCOUNTING RECORDS

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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

DIRECTORS' REMUNERATION

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. **We have nothing to report arising from these matters.**

CORPORATE GOVERNANCE STATEMENT

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

OUR DUTY TO READ OTHER INFORMATION IN THE ANNUAL REPORT

Under International Standards on Auditing (UK and 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 acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. **We confirm that we have not identified any such inconsistencies or misleading statements.**

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

INDEPENDENCE

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the 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 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.

IAN WALLER (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF DELOITTE LLP
CHARTERED ACCOUNTANTS AND STATUTORY AUDITOR
LONDON, UNITED KINGDOM

23 May 2017

CONSOLIDATED INCOME STATEMENT

		52 weeks ended 1 April 2017			53 weeks ended 2 April 2016		
	Notes	Before adjusted items £m	Adjusted items £m	Total £m	Before adjusted items £m	Adjusted items £m	Total £m
Revenue	2, 3	**10,622.0**	**–**	**10,622.0**	10,555.4	–	10,555.4
Operating profit	2, 3, 5	**690.6**	**(437.4)**	**253.2**	784.9	(200.8)	584.1
Finance income	6	**36.2**	**–**	**36.2**	21.1	–	21.1
Finance costs	6	**(113.0)**	**–**	**(113.0)**	(116.4)	–	(116.4)
Profit before tax	4, 5	**613.8**	**(437.4)**	**176.4**	689.6	(200.8)	488.8
Income tax expense	7	**(122.4)**	**61.7**	**(60.7)**	(118.8)	34.4	(84.4)
Profit for the year		**491.4**	**(375.7)**	**115.7**	570.8	(166.4)	404.4
Attributable to:							
Owners of the parent		**492.8**	**(375.7)**	**117.1**	573.3	(166.4)	406.9
Non-controlling interests		**(1.4)**	**–**	**(1.4)**	(2.5)	–	(2.5)
		491.4	**(375.7)**	**115.7**	570.8	(166.4)	404.4
Basic earnings per share	8	**30.4p**		**7.2p**	35.0p		24.9p
Diluted earnings per share	8	**30.2p**		**7.2p**	34.9p		24.8p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	52 weeks ended 1 April 2017 £m	53 weeks ended 2 April 2016 £m
Profit for the year		**115.7**	404.4
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit schemes	11	**(68.9)**	346.2
Tax charge/(credit) on items that will not be reclassified		**25.3**	(45.6)
		(43.6)	300.6
Items that will be reclassified subsequently to profit or loss			
Foreign currency translation differences		**31.0**	7.3
Cash flow hedges and net investment hedges			
– fair value movements recognised in other comprehensive income		**56.1**	(30.1)
– reclassified and reported in profit or loss		**(72.4)**	(22.1)
– amount recognised in inventories		**(20.1)**	5.9
Tax credit on cash flow hedges and net investment hedges		**4.1**	6.5
		(1.3)	(32.5)
Other comprehensive (expense)/income for the year, net of tax		**(44.9)**	268.1
Total comprehensive income for the year		**70.8**	672.5
Attributable to:			
Owners of the parent		**72.2**	675.0
Non-controlling interests		**(1.4)**	(2.5)
		70.8	672.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 1 April 2017 £m	As at 2 April 2016 £m
Assets			
Non-current assets			
Intangible assets	14	**709.0**	802.8
Property, plant and equipment	15	**4,837.8**	5,027.1
Investment property		**15.5**	15.5
Investment in joint ventures		**7.0**	6.9
Other financial assets	16	**3.0**	3.0
Retirement benefit asset	11	**706.0**	851.0
Trade and other receivables	17	**234.1**	234.7
Derivative financial instruments	21	**56.8**	74.0
Deferred tax assets	23	**–**	–
		6,569.2	7,015.0
Current assets			
Inventories		**758.5**	799.9
Other financial assets	16	**14.5**	19.1
Trade and other receivables	17	**318.6**	321.1
Derivative financial instruments	21	**163.1**	72.1
Current tax assets		**–**	1.6
Cash and cash equivalents	18	**468.6**	247.6
		1,723.3	1,461.4
Total assets		**8,292.5**	8,476.4
Liabilities			
Current liabilities			
Trade and other payables	19	**1,553.8**	1,617.7
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**71.9**	71.9
Borrowings and other financial liabilities	20	**518.0**	297.5
Derivative financial instruments	21	**10.5**	28.5
Provisions	22	**147.2**	14.0
Current tax liabilities		**66.6**	75.2
		2,368.0	2,104.8
Non-current liabilities			
Retirement benefit deficit	11	**13.2**	26.9
Trade and other payables	19	**328.5**	353.0
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**324.6**	383.8
Borrowings and other financial liabilities	20	**1,711.7**	1,774.7
Derivative financial instruments	21	**0.8**	0.2
Provisions	22	**113.5**	52.0
Deferred tax liabilities	23	**281.8**	337.6
		2,774.1	2,928.2
Total liabilities		**5,142.1**	5,033.0
Net assets		**3,150.4**	3,443.4
Equity			
Issued share capital	24	**406.2**	405.8
Share premium account		**416.4**	411.3
Capital redemption reserve		**2,210.5**	2,210.5
Hedging reserve		**17.3**	32.3
Other reserve		**(6,542.2)**	(6,542.2)
Retained earnings		**6,648.1**	6,927.5
Total shareholders' equity		**3,156.3**	3,445.2
Non-controlling interests in equity		**(5.9)**	(1.8)
Total equity		**3,150.4**	3,443.4

The financial statements were approved by the Board and authorised for issue on 23 May 2017. The financial statements also comprise the notes on pages 96 to 127.

Steve Rowe Chief Executive Officer
Helen Weir Chief Finance Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Other reserve[1] £m	Foreign exchange reserve[3] £m	Retained earnings £m	Total £m	Non-controlling interest £m	Total £m
As at 29 March 2015	412.0	392.4	2,202.6	64.3	(6,542.2)	(12.6)	6,683.1	3,199.6	(0.8)	3,198.8
Profit/(loss) for the year	–	–	–	–	–	–	406.9	406.9	(2.5)	404.4
Other comprehensive (expense)/income:										
Foreign currency translation	–	–	–	(0.5)	–	7.8	–	7.3	–	7.3
Remeasurements of retirement benefit schemes	–	–	–	–	–	–	346.2	346.2	–	346.2
Tax charge on items that will not be reclassified		–	–	–	–	–	(45.6)	(45.6)	–	(45.6)
Cash flow hedges and net investment hedges										
– fair value movement recognised in other comprehensive income	–	–	–	(21.8)	–	–	(8.3)	(30.1)	–	(30.1)
– reclassified and reported in profit or loss[2]	–	–	–	(22.1)	–	–	–	(22.1)	–	(22.1)
– amount recognised in inventories	–	–	–	5.9	–	–	–	5.9	–	5.9
Tax on cash flow hedges and net investment hedges	–	–	–	6.5	–	–	–	6.5	–	6.5
Other comprehensive income/(expense)	–	–	–	(32.0)	–	7.8	292.3	268.1	–	268.1
Total comprehensive income/(expense)	–	–	–	(32.0)	–	7.8	699.2	675.0	(2.5)	672.5
Transactions with owners:										
Dividends	–	–	–	–	–	–	(301.7)	(301.7)	–	(301.7)
Transactions with non-controlling shareholders	–	–	–	–	–	–	–	–	1.5	1.5
Shares issued on exercise of employee share options	1.7	18.9	–	–	–	–	–	20.6	–	20.6
Purchase of own shares held by employee trusts	–	–	–	–	–	–	(10.9)	(10.9)	–	(10.9)
Shares purchased in buy back	(7.9)	–	7.9	–	–	–	(150.7)	(150.7)	–	(150.7)
Credit for share-based payments	–	–	–	–	–	–	17.2	17.2	–	17.2
Deferred tax on share schemes	–	–	–	–	–	–	(3.9)	(3.9)	–	(3.9)
As at 2 April 2016	405.8	411.3	2,210.5	32.3	(6,542.2)	(4.8)	6,932.3	3,445.2	(1.8)	3,443.4
As at 3 April 2016	405.8	411.3	2,210.5	32.3	(6,542.2)	(4.8)	6,932.3	3,445.2	(1.8)	3,443.4
Profit/(loss) for the year	–	–	–	–	–	–	117.1	117.1	(1.4)	115.7
Other comprehensive (expense)/income:										
Foreign currency translation	–	–	–	(4.3)	–	35.3	–	31.0	–	31.0
Remeasurements of retirement benefit schemes	–	–	–	–	–	–	(68.9)	(68.9)	–	(68.9)
Tax credit on items that will not be reclassified	–	–	–	–	–	–	25.3	25.3	–	25.3
Cash flow hedges and net investment hedges										
– fair value movement recognised in other comprehensive income	–	–	–	77.7	–	–	(21.6)	56.1	–	56.1
– reclassified and reported in profit or loss[2]	–	–	–	(72.4)	–	–	–	(72.4)	–	(72.4)
– amount recognised in inventories	–	–	–	(20.1)	–	–	–	(20.1)	–	(20.1)
Tax on cash flow hedges and net investment hedges	–	–	–	4.1	–	–	–	4.1	–	4.1
Other comprehensive income/(expense)	–	–	–	(15.0)	–	35.3	(65.2)	(44.9)	–	(44.9)
Total comprehensive income/(expense)	–	–	–	(15.0)	–	35.3	51.9	72.2	(1.4)	70.8
Transactions with owners:										
Dividends	–	–	–	–	–	–	(377.5)	(377.5)	–	(377.5)
Transactions with non-controlling shareholders	–	–	–	–	–	–	–	–	(2.7)	(2.7)
Shares issued on exercise of employee share options	0.4	5.1	–	–	–	–	–	5.5	–	5.5
Purchase of own shares held by employee trusts	–	–	–	–	–	–	–	–	–	–
Credit for share-based payments	–	–	–	–	–	–	13.5	13.5	–	13.5
Deferred tax on share schemes	–	–	–	–	–	–	(2.6)	(2.6)	–	(2.6)
As at 1 April 2017	406.2	416.4	2,210.5	17.3	(6,542.2)	30.5	6,617.6	3,156.3	(5.9)	3,150.4

1. The 'Other reserve' was originally created as part of the capital restructuring that took place in 2002. It represents the difference between the nominal value of the shares issued prior to the capital reduction by the Company (being the carrying value of the investment in Marks and Spencer plc) and the share capital, share premium and capital redemption reserve of Marks and Spencer plc at the date of the transaction.
2. Amounts 'reclassified and reported in profit or loss' includes the revaluation of the cross currency swaps, offsetting the revaluation of the US dollar hedged bonds within finance costs.
3. In the prior year financial statements, the foreign exchange reserve was presented within Retained earnings.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	52 weeks ended 1 April 2017 £m	53 weeks ended 2 April 2016 £m
Cash flows from operating activities			
Cash generated from operations	26	**1,165.7**	1,311.3
Income tax paid		**(98.0)**	(99.3)
Net cash inflow from operating activities		**1,067.7**	1,212.0
Cash flows from investing activities			
Proceeds on property disposals		**27.0**	30.6
Purchase of property, plant and equipment		**(309.1)**	(363.3)
Purchase of intangible assets		**(101.1)**	(186.8)
Reduction/(purchase) of current financial assets		**4.6**	(7.2)
Interest received		**6.6**	6.8
Acquisition of subsidiary		**–**	(56.2)
Net cash used in investing activities		**(372.0)**	(576.1)
Cash flows from financing activities			
Interest paid[1]		**(111.2)**	(113.5)
Cash (outflow)/inflow from borrowings		**(32.7)**	3.1
Repayment of syndicated loan notes		**(215.3)**	(19.9)
Issuance of medium-term notes		**300.0**	–
Decrease in obligations under finance leases		**(2.0)**	(2.4)
Payment of liability to the Marks & Spencer UK Pension Scheme		**(57.9)**	(56.0)
Equity dividends paid		**(377.5)**	(301.7)
Shares issued on exercise of employee share options		**5.5**	20.6
Purchase of own shares by employee trust		**–**	(10.9)
Share buy back		**–**	(150.7)
Net cash used in financing activities		**(491.1)**	(631.4)
Net cash inflow from activities		**204.6**	4.5
Effects of exchange rate changes		**5.6**	3.7
Opening net cash		**196.0**	187.8
Closing net cash	27	**406.2**	196.0

1. Includes interest on the partnership liability to the Marks & Spencer UK Pension Scheme.

	Notes	52 weeks ended 1 April 2017 £m	53 weeks ended 2 April 2016 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		**(2,138.3)**	(2,223.2)
Net cash inflow from activities		**204.6**	4.5
(Decrease)/increase in current financial assets		**(4.6)**	7.2
Decrease in debt financing		**7.9**	75.2
Exchange and other non-cash movements		**(4.3)**	(2.0)
Movement in net debt		**203.6**	84.9
Closing net debt	27	**(1,934.7)**	(2,138.3)

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

General information
The current financial statements are prepared for the 52-week period ended 1 April 2017, whereas the prior financial period was the 53 weeks ended 2 April 2016.

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 33 including the Group's principal risks and uncertainties as set out on pages 30 to 33. 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 bank facilities for the foreseeable future. For this reason, the Group continues to adopt the going concern basis in preparing its financial statements.

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.

New accounting standards adopted by the Group
There have been no significant changes to accounting under IFRS which have affected the Group's results for the current financial year. The only changes to the IFRS, IFRS IC interpretations and amendments that are effective for the first time in this financial year, and are applicable for the Group, are the Annual Improvements to IFRSs: 2012-2014 cycle. These have not had a material impact on the Group.

New accounting standards in issue but not yet effective
The following IFRS have been issued but are not yet effective:

→ IFRS 9 'Financial Instruments' replaces all phases of the financial instruments project and IAS 39 'Financial Instruments: Recognition and Measurement'. The standard is effective from periods beginning on or after 1 January 2018 and introduces:

  – new requirements for the classification and measurement of financial assets and financial liabilities;

  – a new model for recognising provisions based on expected credit losses; and

  – simplified hedge accounting by aligning hedge accounting more closely with an entities risk management methodology.

  Work is under way to assess the necessary changes to existing IT systems that will be required to aid the Group's implementation of the standard. The adoption of IFRS 9 is unlikely to have a material impact on the consolidated results of the Group. Any potential impact of IFRS 9 will be quantified in the Annual Report and Financial Statements for the year ending 31 March 2018.

→ IFRS 15 'Revenue from Contracts with Customers' is effective for periods beginning on or after 1 January 2018. The standard establishes a principles based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. It applies to all contracts with customers, except those in the scope of other standards. It replaces the separate models for goods, services and construction contracts under the current accounting standards. The Group has completed an assessment on the impact of IFRS 15 and it is expected adoption will not have a material impact on any of the Group's revenue streams.

→ IFRS 16 'Leases' was issued on 13 January 2016 and is effective for periods beginning on or after 1 January 2019. Early adoption is permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. IFRS 16 is not yet endorsed by the EU.

  The standard represents a significant change in the accounting and reporting of leases for lessees as it provides a single lessee accounting model. As such it requires lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. The standard may also require the capitalisation of a lease element of contracts held by the Group which under the existing accounting standard would not be considered a lease. Accounting requirements for lessors are substantially unchanged from IAS 17.

  The Group has established a working group to assess the impact of the new standard. Work performed includes assessing the accounting impacts of the change, the process of collecting the required data from across the business and the necessary changes to systems and processes. From work performed to date, it is expected implementation of the new standard will have a significant impact on the consolidated results of the Group. On adoption, lease agreements will give rise to both a right of use asset and a lease liability for future lease payables. Depreciation of the right of use asset will be recognised in the income statement on a straight-line basis, with interest recognised on the lease liability. This will result in a change to the profile of the net charge taken to the income statement over the life of the lease. These charges will replace the lease costs currently charged to the income statement.

  The Group continues to assess the full impact of IFRS 16, however, the impact will greatly depend on the facts and circumstances at the time of adoption and upon transition choices adopted. It is therefore not yet practicable to provide a reliable estimate of the financial impact on the Group's consolidated results.

Alternative Performance Measures
In reporting financial information, the Group presents alternative performance measures, "APMs", which are not defined or specified under the requirements of IFRS.

The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. The APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board and Operating Committee. Some of these measures are also used for the purpose of setting remuneration targets.

The key APMs that the Group uses include: like-for-like sales; gross margin; profit before tax and adjusted items; adjusted earnings per share; net debt; free cash flow; and return on capital employed. Each of these APMs, and others used by the Group, are set out in the Glossary on pages 133 and 134 including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant.

The Group reports some financial measures, primarily International sales, on both a reported and constant currency basis. The constant currency basis, which is an APM, retranslates the previous year revenues at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the year-on-year reported results.

The Group makes certain adjustments to the statutory profit measures in order to derive many of these APMs. The Group's policy is to exclude items that are considered to be significant in both nature and/or quantum and where treatment as an adjusted item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group. On this basis, the following items were included within adjusted items for the 52-week period ended 1 April 2017:

→ Significant pension charges arising as a result of changes to the defined benefit scheme's rules and practices

1 ACCOUNTING POLICIES CONTINUED

- Significant restructuring costs and other associated costs arising from significant strategy changes that are not considered by the Group to be part of the normal operating costs of the business.
- Net gains and losses on the disposal of properties or impairments of properties where a commitment to close has been demonstrated.
- Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.
- Adjustments to income from M&S Bank due to a 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.
- Various legal settlements that are significant in value to the results of the Group or to a segment.

Refer to note 5 for a summary of the adjusted items.

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 period 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. This power is generally accompanied by the Group having a shareholding of more than one half of the voting rights. Subsidiary undertakings acquired during the year are recorded using the acquisition method of accounting and their results are included from the date of acquisition.

The separable net assets, including property, plant and equipment and intangible assets, of the newly acquired subsidiary undertakings are incorporated into the consolidated financial statements on the basis of the fair value as at the effective date of control.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Revenue
Revenue comprises sales of goods to customers outside the Group less an appropriate deduction for actual and expected returns, discounts and loyalty scheme vouchers, and is stated net of value added tax and other sales taxes. Revenue is recognised when goods are delivered to our franchise partners or the customer and the significant risks and rewards of ownership have been transferred to the buyer.

Supplier income
In line with industry practice, the Group enters into agreements with suppliers to share the costs and benefits of promotional activity and volume growth. The Group receives income from its suppliers based on specific agreements in place. This supplier income received is recognised as a deduction from cost of sales based on the entitlement that has been earned up to the balance sheet date for each relevant supplier agreement. Marketing contributions, equipment hire and other non-judgemental fixed rate supplier charges are not included in the Group's definition of supplier income.

The types of supplier income recognised by the Group and the associated recognition policies are:

A. Promotional contribution Includes supplier contributions to promotional giveaways and pre-agreed contributions to annual 'spend and save' activity.

Income is recognised as a deduction to cost of sales over the relevant promotional period.

Income is calculated and invoiced at the end of the promotional period based on actual sales or according to fixed contribution arrangements. Contributions earned but not invoiced are accrued at the end of the relevant period.

B. Volume-based rebates Includes annual growth incentives, seasonal contributions and contributions to share economies of scale resulting from moving product supply.

Annual growth incentives are calculated and invoiced at the end of the financial year, once earned, based on fixed percentage growth targets agreed for each supplier at the beginning of the year. They are recognised as a reduction in cost of sales in the year to which they relate. Other volume-based rebates are agreed with the supplier and spread over the relevant season/contract period to which they relate. Contributions earned but not invoiced are accrued at the end of the relevant period.

Uncollected supplier income at the balance sheet date is classified within the financial statements as follows:

A. Trade and other payables The majority of income due from suppliers is netted against amounts owed to that supplier as the Group has the right to offset these balances. As such, the outstanding supplier income within trade and other payables at year end is immaterial.

B. Trade and other receivables Supplier income that has been earned but not invoiced at the balance sheet date is recognised in trade and other receivables and primarily relates to volume-based rebates that run up to the period end.

In order to provide users of the accounts with greater understanding in this area, additional balance sheet disclosure is provided in note 17 to the financial statements.

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 curtailment, 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 on an accruals basis.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Intangible assets

A. Goodwill Goodwill arising on consolidation represents the excess of the consideration paid 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 in value is recognised within 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 within 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 recognised within 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 on a straight line basis 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.
- → Fixtures, fittings and equipment – 3 to 25 years according to the estimated economic 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 recognised within 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.

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. Certain purchases of inventories may be subject to cash flow hedges for foreign exchange risk. The Group applies a basis adjustment for those purchases in a way that the cost is initially established by reference to the hedged exchange rate and not the spot rate at the day of purchase.

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 at each reporting period 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 booked into 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 hedges 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 recognised in other comprehensive income or directly in equity.

Provision is made for uncertain tax positions when it is considered probable that there will be a future outflow of funds to a tax authority. The provision is calculated using the single best estimate where that outcome is more likely than not and a weighted average probability in other circumstances. The position is reviewed on an ongoing basis, to ensure appropriate provision is made for each known tax risk.

1 ACCOUNTING POLICIES CONTINUED

Deferred tax is accounted for using a temporary difference approach, and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, applying tax rates and laws enacted or substantively enacted at the end of the reporting period.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the reversal of the temporary difference can be controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

A. Trade and other receivables Trade receivables are recorded initially at fair value and subsequently measured at amortised cost. Subsequently, this results in their recognition at nominal value less any allowance for any doubtful debts.

B. Other financial assets Other financial assets consist of investments in debt and equity securities and short-term investments and are classified as either 'available-for-sale' or 'fair value through profit and loss'. Available-for-sale financial assets are initially measured at fair value, including transaction costs directly attributable to the acquisition of the financial asset. Financial assets held at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed.

Where securities are designated as 'fair value through profit and loss', gains and losses arising from changes in fair value are included in the income statement for the period. For 'available-for-sale' investments, gains or losses arising from changes in fair value are recognised in other 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 other comprehensive income is included in the income statement for the period. Equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by other means are held at cost.

C. Classification of financial liabilities and equity Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

D. Bank borrowings Interest-bearing bank loans and overdrafts are initially recorded at fair value, which equals the proceeds received, net of direct issue costs. 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 net of direct issue costs and are subsequently held at amortised cost unless the loan is designated in a hedge relationship, 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, cross-currency swaps and forward foreign currency contracts to manage its exposures to fluctuations in interest rates 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).

→ A hedge of the exposure on the translation of net investments in foreign entities (a net investment hedge).

At the inception of a hedging relationship, the hedging instrument and the hedged item are documented, along with the risk management objectives and strategy for undertaking various hedge transactions and prospective effectiveness testing is performed. During the life of the hedging relationship, prospective and retrospective effectiveness testing is performed 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 other comprehensive income in the hedging reserve 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 other 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 Changes in the fair value of a derivative instrument designated in a fair value hedge, or, for non-derivatives the foreign currency component of carrying value, are recognised in the income statement. The hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

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 other comprehensive income in the hedging reserve 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, the hedge relationship no longer qualifies for hedge accounting, the forecast transaction is no longer expected to occur or the Group de-designates the hedge relationship.

When a cash flow hedge is discontinued, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is retained in equity until the forecast transaction occurs. Subsequent changes in the fair value of the hedging instruments when the forecast transaction is no longer highly probable but is still expected to occur, are recognised in the income statement. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in comprehensive income is transferred to the income statement for the period.

When a fair value hedge is discontinued, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement from that date.

When a net investment hedge is discontinued, the subsequent changes in fair value of a derivative (or foreign exchange gains/losses on recognised financial liabilities) are recognised in the income statement. The gain or loss on the hedging instrument recognised in other comprehensive income is reclassified to the income statement only on disposal of the net investment.

The Group does not use derivatives to hedge income statement translation exposures.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the income statement. Embedded derivatives are carried in the statement of financial position at fair value from the inception of the host contract.

Changes in fair value are recognised within the income statement during the period in which they arise.

Critical accounting judgements and sources of estimation uncertainty

The preparation of consolidated financial statements requires the Group to make estimates and judgements that affect the application of policies and reported amounts.

Critical judgements represent key decisions made by management in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a critical accounting estimate. 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 judgements which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

Critical accounting judgements

Adjusted items The directors believe that the adjusted profit and earnings per share measures provide additional useful information for shareholders on the performance of the business. These measures are consistent with how business performance is measured internally by the Board and Operating Committee. The adjusted profit before tax measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. The classification of adjusted items requires significant management judgement after considering the nature and intentions of a transaction.

Note 5 provides further details on current year adjusted items and their adherence to Group policy.

Sources of estimation uncertainty

Useful lives and residual values of property, plant and equipment Depreciation is provided to write down the cost of property, plant and equipment to their estimated residual values over their estimated useful lives, as set out above. The selection of the residual values and useful lives gives rise to estimation uncertainty. The Group is undertaking a strategic multi-year programme in relation to the UK store estate which will result in future store closures. The timing of these closures and the identification of the specific stores that will be impacted are not yet known, giving rise to additional estimation uncertainty when assessing the residual values and useful lives as at 1 April 2017. The useful lives of property, plant and equipment are reviewed by management annually. See note 15 for further details.

Impairment of property, plant and equipment Property, plant and equipment 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. This method requires the Group to determine the appropriate period over which to assess future cash flows and discount rate assumptions. See notes 14 and 15 for further details on the Group's assumptions and associated sensitivities.

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. The fair value of unquoted investments within total plan assets is determined using fair value estimates provided by the manager of the investment or fund. See note 11 for further details on the impact of changes in the key assumptions and estimates and note 12 for critical judgements associated with the Marks & Spencer UK Pension Scheme interest in the Marks and Spencer Scottish Limited Partnership.

Revenue recognition Accruals for sales returns, deferred income in relation to loyalty scheme redemptions and gift card and credit voucher redemptions are estimated on the basis of historical returns and redemptions. These are recorded so as to be allocated against revenue in the same period as that in which 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.

International closure costs During the year the Group announced its strategy for the International business resulting in the planned exit from owned stores in ten international markets. The Group will incur significant closure costs associated with the exits which gives rise to estimation uncertainty at 1 April 2017, most notably in respect of the expected costs to exit leases and the expected redundancy costs. See note 5 for further details.

Inventory provisioning Inventory provisions are recognised where the net realisable value from the sale of inventory is estimated to be lower than its carrying value, requiring estimation of the expected future sale price. The estimation includes judgement on a number of factors including historic sales patterns, expected sales profiles, potential obsolescence and shrinkage.

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 Operating Committee. The Operating Committee reviews 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 Operating Committee.

The UK segment consists of the UK retail business and UK franchise operations. The International segment consists of Marks & Spencer owned businesses in Europe and Asia, together with international franchise operations.

The Operating Committee assesses the performance of the operating segments based on a measure of operating profit. This measurement basis excludes the effects of adjusted items from the operating segments. The Operating Committee also monitors revenue within the segments and gross profit within the UK segment. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segments by sub-category and gross profit within the UK segment by sub-category.

The following is an analysis of the Group's revenue and results by reportable segment:

	52 weeks ended 1 April 2017				53 weeks ended 2 April 2016			
	Management £m	**Logistics adjustment[1] £m**	**Adjusted items[2] £m**	**Statutory £m**	Management £m	Logistics adjustment[1] £m	Adjusted items[2] £m	Statutory £m
Clothing & Home revenue	**3,792.7**	**–**	**–**	**3,792.7**	3,961.3	–	–	3,961.3
Food revenue	**5,649.0**	**–**	**–**	**5,649.0**	5,509.5	–	–	5,509.5
UK revenue	**9,441.7**	**–**	**–**	**9,441.7**	9,470.8	–	–	9,470.8
Franchise	**314.0**	**–**	**–**	**314.0**	329.7	–	–	329.7
Owned	**866.3**	**–**	**–**	**866.3**	754.9	–	–	754.9
International revenue	**1,180.3**	**–**	**–**	**1,180.3**	1,084.6	–	–	1,084.6
Group revenue	**10,622.0**	**–**	**–**	**10,622.0**	10,555.4	–	–	10,555.4
Clothing & Home gross profit	**2,128.7**				2,180.7			
Food gross profit	**1,837.7**				1,806.2			
UK gross profit	**3,966.4**	**(360.5)**	**–**	**3,605.9**	3,986.9	(300.9)	–	3,686.0
UK operating costs	**(3,390.4)**	**360.5**	**(254.5)**	**(3,284.4)**	(3,320.1)	300.9	(49.1)	(3,068.3)
M&S Bank	**50.2**	**–**	**(44.1)**	**6.1**	59.9	–	(50.3)	9.6
UK operating profit	**626.2**	**–**	**(298.6)**	**327.6**	726.7	–	(99.4)	627.3
International operating profit	**64.4**	**–**	**(138.8)**	**(74.4)**	58.2	–	(101.4)	(43.2)
Group operating profit	**690.6**	**–**	**(437.4)**	**253.2**	784.9	–	(200.8)	584.1
Finance income	**36.2**	**–**	**–**	**36.2**	21.1	–	–	21.1
Finance costs	**(113.0)**	**–**	**–**	**(113.0)**	(116.4)	–	–	(116.4)
Profit before tax	**613.8**	**–**	**(437.4)**	**176.4**	689.6	–	(200.8)	488.8

1. Management gross profit for the UK segment excludes certain expenses resulting in an adjustment between cost of sales and selling and administrative expenses of £360.5m (last year £300.9m). Updates to the methodology have been made in the current year to include depreciation of the relevant Distribution Centres within gross margin. This is to ensure consistent treatment with the underlying warehousing costs. The prior year comparatives have not been restated.
2. Management profit excludes the adjusted items (income or charges) made to reported profit before tax that are significant in value and/or nature (see note 5). Please refer to the Glossary on pages 133 and 134 for the definition of these items.

Other segmental information

	2017			2016		
	UK £m	**International £m**	**Total £m**	UK £m	International £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	**374.1**	**12.2**	**386.3**	624.9	20.0	644.9
Depreciation and amortisation	**549.1**	**29.1**	**578.2**	531.9	30.9	562.8
Impairment and asset write-offs	**72.7**	**31.2**	**103.9**	60.8	98.8	159.6
Total assets	**7,917.3**	**375.2**	**8,292.5**	8,062.3	414.1	8,476.4
Non-current assets	**6,324.4**	**244.8**	**6,569.2**	6,751.9	263.1	7,015.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 EXPENSE ANALYSIS

	2017 Total £m	2016 Total £m
Revenue	**10,622.0**	10,555.4
Cost of sales	**(6,534.2)**	(6,427.0)
Gross profit	**4,087.8**	4,128.4
Selling and administrative expenses	**(3,460.4)**	(3,412.9)
Other operating income	**63.2**	69.4
Operating profit before adjusted items	**690.6**	784.9
Adjusted items (see note 5)	**(437.4)**	(200.8)
Operating profit	**253.2**	584.1

The selling and administrative expenses are further analysed below:

	2017 Total £m	2016 Total £m
Employee costs[1]	**1,491.4**	1,435.7
Occupancy costs	**757.2**	723.2
Repairs, renewals and maintenance of property	**95.1**	99.5
Depreciation, amortisation and asset impairments and write-offs before adjusted items	**589.5**	576.8
Other costs	**527.2**	577.7
Selling and administrative expenses	**3,460.4**	3,412.9

1. There is an additional £61.2m (last year £51.0m) of employee costs recorded within cost of sales. These costs are included within the aggregate remuneration disclosures note 10A.

4 PROFIT BEFORE TAXATION

The following items have been included in arriving at profit before taxation:

	2017 £m	2016 £m
Net foreign exchange (gains)/losses	**(0.2)**	6.9
Cost of inventories recognised as an expense	**5,776.1**	5,778.6
Write-down of inventories to net realisable value	**234.9**	239.7
Depreciation of property, plant, and equipment		
– owned assets	**410.3**	412.7
– under finance leases	**0.5**	1.4
Amortisation of intangible assets	**167.4**	148.7
Profit on property disposals	**–**	(0.6)
Impairments and write-offs of assets	**103.9**	159.6
Operating lease rentals payable		
– property	**350.1**	337.1
– fixtures, fittings and equipment	**4.3**	3.5

Included in administrative expenses is the auditor's remuneration, including expenses for audit and non-audit services, payable to the Company's auditor Deloitte LLP and its associates as follows:

	2017 £m	2016 £m
Annual audit of the Company and the consolidated financial statements	**0.9**	0.7
Audit of subsidiary companies	**0.7**	0.7
Audit-related assurance services	**0.3**	0.2
Total audit and audit-related assurance services fees	**1.9**	1.6
Other services	**–**	0.1
Total other services	**–**	0.1

5 ADJUSTED ITEMS

The total adjusted items reported for the 52-week period ended 1 April 2017 is a net charge of £437.4m. The adjustments made to reported profit before tax to arrive at adjusted profit are:

	Notes	2017 £m	2016 £m
Strategic programmes:			
– changes to pay and pensions	22	**(156.0)**	–
– UK organisation	15, 22	**(24.0)**	–
– UK store estate	15, 22	**(51.6)**	(37.0)
– International store closures and impairments	15, 22	**(132.5)**	(31.6)
UK store impairments and onerous lease charges	15, 22	**(48.8)**	–
M&S Bank charges incurred in relation to the insurance mis-selling provision		**(44.1)**	(50.3)
UK logistics	15, 22	**9.8**	9.2
Legal settlements		**9.8**	–
Other impairments[1]		**–**	(94.5)
IAS 39 fair value movement of embedded derivative		**–**	(2.0)
Net gain on acquisition of joint venture holding Bradford warehouse		**–**	5.4
Adjustments to profit before tax		**(437.4)**	(200.8)

1. Other impairments in the prior year included the impairment of Czech and Hungary goodwill (£19.1m), the M&S Mode brand (£32.4m), an enterprise management system used by the International business of (£19.3m) and impairment costs of (£23.7m) related to the Clothing & Home buying and merchandising systems.

Changes to pay and pensions (£156.0m)

On 25 May 2016, the Group announced proposals for a fairer, simpler and more consistent approach to pay and premia as well as proposals to close the UK defined benefit (DB) pension scheme to future accrual effective from 1 April 2017. The consultation with employees on these changes completed on 2 September 2016.

The closure of the UK DB pension scheme to future accrual has resulted in a curtailment charge of £127.0m. As all remaining active members of the scheme have transitioned to deferred status, all future pensionable increases will be in line with inflation (CPI) as opposed to the lower 1% salary cap applied to active members. Other costs of £5.4m directly associated with the closure, primarily in relation to third party advisory costs, have also been incurred.

The Group considers the curtailment cost and directly associated costs to be an adjusted item on the basis that they relate to a significant cost impacting the Group results.

Following the completion of the consultation in respect of pay and premia, the Group has committed to transition payments of £23.6m in respect of the removal of premia. The full amount of £23.6m has been recognised as a liability at 1 April 2017 as the criteria for recognition under IAS 37 have been met at this date.

The Group anticipates making further transition payments to impacted employees in relation to the closure of the UK DB scheme, expected to be c. £25m in total over the next three years. These amounts will be recognised within adjusted items in future years as incurred.

The premia buyout costs are considered to be an adjusted item as they represent costs that are significant in value to the results of the Group.

Strategic programmes – UK organisation (£24.0m)

During the year, the Group announced the results of a wide-ranging strategic review across a number of areas of the business including customer, brand, UK organisation, UK store estate and International. The completion of this review has resulted in the Group incurring a number of significant charges.

On 5 September 2016, following completion of a detailed review of the UK organisation, the Group announced changes to the UK Head Office structure. The changes have resulted in a net reduction of c.590 Head Office roles achieved through a combination of fewer contractors, natural attrition and redundancies and resulted in costs of £15.4m inclusive of fees.

On 2 March 2017, as part of the ongoing strategic programme, the Group announced an 18-month programme to centralise its London Head Office functions into one building. The Group has recognised a net charge of £8.6m associated with this rationalisation, inclusive of the impairment and write-off of assets upon exit of vacated buildings, an expected net sub-let shortfall and the costs of relocation.

These costs are considered to be an adjusted item as they are significant in value and relate to a strategic initiative. As a result, they are not considered to be normal operating costs of the business.

Strategic programmes – UK store estate (£51.6m)

The Group has revised its previously announced strategic programme in relation to the UK store estate. As part of this programme, ten UK stores were approved for closure in the period, resulting in closure costs of £47.3m relating to dilapidations, sub-let shortfalls, accelerated depreciation of fixtures and fittings and impairment of assets. The balance of the charges of £4.3m in the period relate to the ongoing review of assumptions associated with previously closed stores.

Whilst costs associated with the closure and re-configuration of the UK store estate will recur across financial years, the Group considers that they should be treated as an adjusted item given they are part of a strategic programme and are significant in value to the results of the Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 ADJUSTED ITEMS CONTINUED

Strategic programmes – International store closures and impairments (£132.5m)
The Group has announced its intention to close its owned stores in ten international markets, resulting in the recognition of a cost of £130.5m in the period. The expected closure costs primarily relate to redundancy, lease exit and property dilapidations. The closure programmes are ongoing in all markets, with the exception of China, where the final store was closed on 1 April 2017. The costs are considered to be an adjusted item as they are part of a strategic programme and are significant in both value and nature to the results of the Group.

International store impairment testing during the year identified a number of stores where current and anticipated future performance does not support the carrying value of the stores, with a resulting impairment charge of £9.0m being incurred, which is considered significant in value to the results of the International segment. Refer to note 15 for further details of these impairments.

Offsetting these store impairments are credits of £7.0m relating to the reversal of historic impairments against five stores and the release of unutilised provisions on completion of the exit from the Balkans. This impairment reversal and release are considered to be adjusted items, consistent with treatment in previous periods when the original charges were recognised as adjusted items.

UK store impairments and onerous lease charges (£48.8m)
The UK store impairment testing during the year has identified a number of stores where the current and anticipated future performance does not support the carrying value of the stores. As a result, a charge of £39.4m has been incurred in respect of the impairment of assets associated with these stores. A future charge of £9.4m has been incurred in respect of onerous lease provisions associated with some of these stores. Refer to note 15 for further details of these impairments.

The charges associated with the impairment of stores and associated onerous leases have been classified as an adjusted item on the basis of the significant value of the charge in the year to the results of the Group.

M&S Bank charges incurred in relation to the insurance mis-selling provision (£44.1m)
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 profit share received from HSBC, although future income may be impacted by significant deductions.

Since the year ended 31 December 2010, M&S Bank has recognised in its audited financial statements an estimated liability for redress to customers in respect of possible mis-selling of financial products. The Group's income from M&S Bank has been reduced by the deduction of our share of the estimated liability in both the current and prior years. The deduction in the period is £44.1m.

The Group considers this cost to be an adjusted item, despite its recurring nature, as the charges are significant in nature and value in each period to the results of the Group.

UK logistics (£9.8m credit)
A net credit of £9.8m has been recognised in the year relating to an updated view of the estimated closure costs of legacy logistics sites associated with the transition to a single tier distribution network. This credit largely arises following a decision to retain two logistics warehouses within the network which had previously been identified for closure. This net credit is considered to be an adjusted item, consistent with treatment in previous periods when the original charges were recognised as an adjusted item.

Legal settlements (£9.8m credit)
During the year, the Group has reached various legal settlements resulting in a net credit to the income statement of £9.8m. No further detail is provided in respect of these legal settlements due to the requirement to comply with confidentiality clauses within the agreements.

The settlements are considered to be adjusted items as they are significant in value to the results of the Group or to the segment.

6 FINANCE INCOME/COSTS

	2017 £m	2016 £m
Bank and other interest receivable	6.6	5.8
Unwind of discount on financial instruments	0.3	–
Pension net finance income (see note 11)	29.3	15.3
Finance income	**36.2**	21.1
Interest on bank borrowings	(2.8)	(3.6)
Interest payable on syndicated bank facility	(4.3)	(5.5)
Interest payable on medium-term notes	(91.2)	(89.9)
Interest payable on finance leases	(1.9)	(1.9)
Unwind of discount on financial instruments	–	(0.4)
Unwind of discount on provisions	(0.2)	(0.4)
Unwinding of discount on partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(12.6)	(14.7)
Finance costs	**(113.0)**	(116.4)
Net finance costs	**(76.8)**	(95.3)

7 INCOME TAX EXPENSE

A. Taxation charge

	2017 £m	2016 £m
Current tax		
UK corporation tax on profits for the year at 20% (last year 20%)		
– current year	**98.3**	111.6
– adjustments in respect of prior years	**(17.4)**	(5.6)
UK current tax	**80.9**	106.0
Overseas current taxation		
– current year	**8.9**	12.4
– adjustments in respect of prior years	**7.3**	(0.5)
Total current taxation	**97.1**	117.9
Deferred tax		
– origination and reversal of temporary differences	**(48.3)**	(28.3)
– adjustments in respect of prior years	**11.5**	2.6
– changes in tax rate	**0.4**	(7.8)
Total deferred tax (see note 23)	**(36.4)**	(33.5)
Total income tax expense	**60.7**	84.4

B. Taxation reconciliation

The effective tax rate was 34.4% (last year 17.3%) and is reconciled below:

	2017 £m	2016 £m
Profit before tax	**176.4**	488.8
Notional taxation at standard UK corporation tax rate of 20% (last year 20%)	**35.3**	97.8
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**4.7**	2.3
Other income and expenses that are not taxable or allowable for tax purposes	**(0.7)**	(9.6)
Retranslation of deferred tax balances due to the change in statutory UK tax rates	**(3.9)**	(7.8)
Overseas profits taxed at rates different to those of the UK	**(2.3)**	(4.3)
Overseas tax losses where there is no relief anticipated in the foreseeable future	**0.5**	3.7
Adjustments to the current and deferred tax charges in respect of prior periods	**1.4**	(3.5)
Adjusted items:		
– depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**–**	2.6
– UK store impairments and strategic programmes – UK store estate where no tax relief is available	**7.7**	–
– International store closures and impairments where no tax relief is available	**26.0**	15.3
– strategic programmes – UK organisation and logistics income and expenses that are not taxable or allowable for tax purposes	**(1.7)**	–
– profits and losses on property disposals	**–**	(1.5)
– acquisition of Lima (Bradford) S.à r.l	**–**	(5.4)
– retranslation of deferred tax balances due to the change in statutory UK tax rates	**4.3**	–
– overseas profits taxed at rates different to those of the UK	**(10.6)**	(5.2)
Total income tax expense	**60.7**	84.4

After excluding adjusted items, the adjusted effective tax rate was 19.9% (last year 17.2%).

On 15 September 2016, the Finance Bill received Royal Assent to enact the previously announced reductions in the rate of corporation tax to 19% from 1 April 2017 and 17% from 1 April 2020. The Group has remeasured its UK deferred tax assets and liabilities at the end of the reporting period at the rates of 19% and 17% based on an expectation of when those balances are expected to unwind. This has resulted in the recognition of a deferred tax charge of £0.4m in the income statement and the recognition of a deferred tax credit of £11.0m in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7 INCOME TAX EXPENSE CONTINUED

B. Taxation reconciliation continued

	2017 £m	2016 £m
Profit before taxation	**176.4**	488.8
Notional taxation at standard UK corporation tax rate of 20% (last year 20%)	**35.3**	97.8
Disallowable accounting depreciation and other similar items	**90.2**	85.4
Deductible capital allowances	**(67.2)**	(71.5)
Allowable deductions for employee share schemes	**1.0**	(3.4)
Allowable deductions for employee pension schemes	**(11.7)**	(13.4)
Overseas profits taxed at rates different to those of the UK	**(2.3)**	(4.3)
Overseas tax losses where there is no immediate relief	**0.5**	3.7
Other income and expenses that are not taxable or allowable	**3.8**	7.6
Adjusted items:		
– UK store impairments and strategic programmes – UK store estate where no tax relief is available	**17.3**	21.0
– International store closures and impairments where no tax relief is available	**27.3**	–
– strategic programmes – UK organisation and logistics income and expenses that are not taxable or allowable for tax purposes	**(1.8)**	–
– pay and pensions where tax relief is due in the future	**25.4**	–
– profits and losses on property disposals	**–**	(0.5)
– UK property and investment deductions where no tax relief is available	**–**	7.5
– Lima (Bradford) S.à r.l acquisition accounting	**–**	(5.4)
– embedded derivative	**–**	4.7
– overseas profits taxed at rates different to those of the UK	**(10.6)**	(5.2)
Current year current tax charge	**107.2**	124.0
Represented by:		
UK current year current tax	**98.3**	111.6
Overseas current year current tax	**8.9**	12.4
	107.2	124.0
UK adjustments in respect of prior years	**(17.4)**	(5.6)
Overseas adjustments in respect of prior years	**7.3**	(0.5)
Total current taxation (note 7A)	**97.1**	117.9

8 EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on earnings after tax and the weighted average number of ordinary shares in issue during the year.

The adjusted earnings per share figures have also been calculated based on earnings before adjusted items that are significant in nature and/or value (see note 5). These have been presented to provide shareholders with an additional measure of the Group's year-on-year performance.

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 four types 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; unvested shares granted under the Deferred Share Bonus Plan; unvested shares granted under the Restricted Share Plan; and unvested shares within the Performance Share Plan that have met the relevant performance conditions at the end of the reporting period.

Details of the adjusted earnings per share are set out below:

	2017 £m	2016 £m
Profit attributable to equity shareholders of the Company	**117.1**	406.9
Add/(less) (net of tax):		
Strategic programmes:		
– changes to pay and pensions	**128.6**	–
– UK organisation	**20.3**	–
– UK store estate	**46.5**	30.5
– International store closures and impairments	**120.8**	25.2
UK store impairments and onerous lease charges	**41.3**	–
M&S Bank charges incurred in relation to the insurance mis-selling provision	**35.3**	40.2
UK logistics	**(9.2)**	(7.3)
Legal settlements	**(7.9)**	–
Other Impairments	**–**	85.9
IAS 39 fair value movement of embedded derivative	**–**	1.6
Net gain on acquisition of joint venture holding Bradford warehouse	**–**	(9.7)
Profit before adjusted items attributable to equity shareholders of the Company	**492.8**	573.3

	Million	Million
Weighted average number of ordinary shares in issue	**1,623.1**	1,635.9
Potentially dilutive share options under the Group's share option schemes	**8.0**	6.3
Weighted average number of diluted ordinary shares	**1,631.1**	1,642.2

	Pence	Pence
Basic earnings per share	**7.2**	24.9
Diluted earnings per share	**7.2**	24.8
Adjusted basic earnings per share	**30.4**	35.0
Adjusted diluted earnings per share	**30.2**	34.9

9 DIVIDENDS

	2017 per share	2016 per share	2017 £m	2016 £m
Dividends on equity ordinary shares				
Paid final dividend	**11.9p**	11.6p	**192.7**	190.8
Special dividend	**4.6p**	–	**74.5**	–
Paid interim dividend	**6.8p**	6.8p	**110.3**	110.9
	23.3p	18.4p	**377.5**	301.7

The directors have proposed a final dividend in respect of the year ended 1 April 2017 of 11.9p per share (last year 11.9p), amounting to a dividend of £193.3m(last year £192.7m). This payment is subject to approval of shareholders at the Annual General Meeting (AGM), to be held on 11 July 2017.

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 1 June 2017. For those shareholders electing to receive the DRIP, the last date for receipt of a new election is 23 June 2017.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10 EMPLOYEES

A. Aggregate remuneration

The aggregate remuneration and associated costs of Group employees (including the Operating Committee) were:

	2017 Total £m	2016 Total £m
Wages and salaries	**1,333.8**	1,278.8
Social security costs	**89.7**	80.6
Pension costs	**100.3**	102.0
Share-based payments (see note 13)	**10.6**	16.0
Employee welfare and other personnel costs	**47.1**	46.7
Capitalised staffing costs	**(28.9)**	(37.4)
Total aggregate remuneration[1]	**1,552.6**	1,486.7

1. Excludes amounts recognised within adjusted items (see note 5) such as the transition payments the Group has committed to in respect of removal of premia and redundancy costs associated with the UK and International strategic programmes.

Details of key management compensation are given in note 28.

B. Average monthly number of employees

	2017	2016
UK stores		
– management and supervisory categories	**5,617**	5,696
– other	**66,385**	63,733
UK head office		
– management and supervisory categories	**3,172**	3,191
– other	**862**	881
UK operations		
– management and supervisory categories	**191**	257
– other	**1,267**	1,127
Overseas	**7,445**	8,063
Total average number of employees	**84,939**	82,948

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 59,764 (last year 58,895).

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 (DB) arrangement) and Your M&S Pension Saving Plan (a defined contribution (DC) arrangement).

The UK DB pension scheme operated on a final salary basis and is governed by a Trustee board which is independent of the Group. On closure of the UK DB pension scheme, all remaining active members moved to deferred status which resulted in a curtailment charge of £127.0m. There will be no future service charge relating to the scheme and no future monthly employer contributions for current service. At year end the UK DB pension scheme had no active members (last year 11,176), 62,655 deferred members (last year 53,589) and 51,198 pensioners (last year 51,047).

The most recent actuarial valuation of the Marks and Spencer UK Pension Scheme was carried out as at 31 March 2015 and showed a funding surplus of £204m. During the year the Group paid the final contribution of £28m, as agreed at the 2012 actuarial valuation, in respect of benefits already accrued by members. In addition, the UK DB pension scheme will continue to receive income from the Scottish Limited Partnership. See Note 12 for further details.

The DC 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 the investment returns earned on the contributions arising from the performance of each individual's investments and how each member chooses to receive their retirement benefits. 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. At the year end, the defined contribution arrangement had some 53,661 active members (last year 40,712) and some 12,866 deferred members (last year 8,823).

The Group also operates a small funded DB pension scheme in the Republic of Ireland. This scheme closed to future accrual on 31 October 2013. Other retirement benefits also include a UK post-retirement healthcare scheme and unfunded retirement benefits.

The total Group retirement benefit cost was £198.4m (last year £86.7m). Of this, £148.0m (last year £41.0m) relates to the UK DB pension scheme including curtailment charges, £45.1m (last year £40.3m) to the UK DC plan and £5.3m (last year £5.4m) to other retirement benefit schemes.

11 RETIREMENT BENEFITS CONTINUED

By funding its DB 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 than that assumed, resulting in higher payments from the schemes.
- Scheme members may live longer than assumed, for example due to advances in healthcare. Members may also exercise (or not exercise) options in a way that lead 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 is exposed to additional risks through its obligation to the UK DB pension scheme via its interest in the Scottish Limited Partnership (see note 12). 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 to the pension scheme, or an increase in the collateral to be provided by the Group.

A. Pensions and other post-retirement liabilities

	2017 £m	2016 £m
Total market value of assets	**10,135.1**	8,515.3
Present value of scheme liabilities	**(9,433.3)**	(7,682.3)
Net funded pension plan asset	**701.8**	833.0
Unfunded retirement benefits	**(1.0)**	(0.9)
Post-retirement healthcare	**(8.0)**	(8.0)
Net retirement benefit surplus	**692.8**	824.1
Analysed in the statement of financial position as:		
Retirement benefit asset	**706.0**	851.0
Retirement benefit deficit	**(13.2)**	(26.9)
Net retirement benefit surplus	**692.8**	824.1

In the event of a plan wind-up, the pension scheme rules provide M&S with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities. In the ordinary course of business, the Trustees have no rights to wind up or change the benefits due to members of the scheme. As a result, any net surplus in the UK DB pension scheme is recognised in full.

B. Financial assumptions

The financial assumptions for the UK DB pension 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:

	2017 %	2016 %
Rate of increase in salaries	**N/A[1]**	1.0
Rate of increase in pensions in payment for service	**2.0-3.2**	1.9-3.0
Discount rate	**2.55**	3.40
Inflation rate	**3.20**	2.95
Long-term healthcare cost increases	**7.20**	6.95

1. Rate of increase in salaries is no longer applicable as the UK DB pension scheme is closed to future accrual.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RETIREMENT BENEFITS CONTINUED

C. Demographic assumptions

The UK demographic assumptions are in line with those adopted for the last formal actuarial valuation of the scheme performed as at 31 March 2015. The UK post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2015. The specific mortality rates used are based on the VITA lite tables. The life expectancies underlying the valuation are as follows:

		2017	2016
Current pensioners (at age 65)	– males	**23.2**	23.1
	– female	**24.7**	24.6
Future pensioners – currently in active status (at age 65)	– males	**N/A[1]**	23.6
	– female	**N/A[1]**	26.2
Future pensioners – currently in deferred status (at age 65)	– males	**24.7**	24.1
	– female	**27.1**	26.4

1. No future pensioners currently in an active status. All employees in the UK DB pension scheme are in deferred status due to the decision to close the scheme to future accrual from 1 April 2017.

D. Sensitivity analysis

The table below summarises the estimated impact of changes in the principal actuarial assumptions on the UK DB pension scheme surplus:

	2017 £m	2016 £m
Decrease in scheme surplus caused by a decrease in the discount rate of 0.25%	**(70.0)**	(90.0)
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.25%	**(20.0)**	20.0
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	**370.0**	300.0

The sensitivity analysis above is based on a change in one assumption while holding all others constant. Therefore interdependencies between the assumptions have not been taken into account within the analysis.

E. Analysis of assets

The investment strategy of the UK DB pension scheme is driven by its liability profile, including its inflation-linked pension benefits. In addition to its interest in the Scottish Limited Partnership (see 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 92% of interest rate movements and 90% of inflation movements, as measured on the Trustees' funding assumptions which use a discount rate derived from gilt yields.

The fair value of the total plan assets at the end of the reporting period for each category is as follows:

	2017 £m	2016 £m
Debt investments		
– government bonds net of repurchase agreements[1]	**5,219.7**	4,165.7
– corporate bonds	**901.9**	1,058.2
– asset-backed securities and structured debt	**547.9**	459.0
Scottish Limited Partnership interest (see note 12)	**412.1**	469.5
Equity investments – quoted	**1,504.0**	1,047.5
Equity investments – unquoted	**315.1**	236.7
Property	**509.3**	420.7
Derivatives		
– interest and inflation rate swap contracts	**(28.9)**	(101.5)
– foreign exchange contracts and other derivatives	**204.2**	142.0
Hedge and reinsurance funds	**322.0**	317.9
Cash and cash equivalents	**158.3**	190.5
Other	**69.5**	109.1
	10,135.1	8,515.3

1. Repurchase agreements were £1,333.9m (last year £1,333.0m).

All pension assets have quoted prices in an active market with the exception of £1,444.9m (last year £1,219.1m) of unquoted assets. The fair values of the above equity and debt investments are 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 fair 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 schemes (UK DB pension scheme and post-retirement healthcare) indirectly held 193,506 (last year 169,509) ordinary shares in the Company through its investment in UK Equity Index Funds.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RETIREMENT BENEFITS CONTINUED

F. Analysis of amounts charged against profits

Amounts recognised in comprehensive income in respect of retirement benefit plans are as follows:

	2017 £m	2016 £m
Current service cost	**96.5**	98.0
Administration costs	**3.2**	3.0
Past service costs – curtailment charge	**128.0**	1.0
Net interest income	**(29.3)**	(15.3)
Total	**198.4**	86.7
Remeasurement on the net defined benefit surplus:		
– actual return on scheme assets excluding amounts included in net interest income	**(1,543.8)**	156.3
– actuarial gain – experience	**(1.5)**	(164.8)
– actuarial loss – demographic assumptions	**–**	100.8
– actuarial (gain)/loss – financial assumptions	**1,614.2**	(438.5)
Components of defined benefit cost recognised in other comprehensive income	**68.9**	(346.2)

G. Scheme assets

Changes in the fair value of the scheme assets are as follows:

	2017 £m	2016 £m
Fair value of scheme assets at start of year	**8,515.3**	8,596.5
Interest income based on discount rate	**284.9**	262.4
Actual return on scheme assets excluding amounts included in net interest income[1]	**1,543.8**	(156.3)
Employer contributions	**137.0**	118.4
Benefits paid	**(347.7)**	(311.7)
Administration costs	**(3.0)**	(3.0)
Exchange movement	**4.8**	9.0
Fair value of scheme assets at end of year	**10,135.1**	8,515.3

1. The actual return on scheme assets was a gain of £1,828.7m (last year gain of £106.1m).

H. Pensions and other post-retirement liabilities

Changes in the present value of retirement benefit obligations are as follows:

	2017 £m	2016 £m
Present value of obligation at start of year	**7,691.2**	8,147.5
Current service cost	**96.5**	98.0
Administration costs	**0.2**	–
Curtailment charge	**128.0**	1.0
Interest cost	**255.6**	247.1
Benefits paid	**(347.7)**	(311.7)
Actuarial gain – experience	**(1.5)**	(164.8)
Actuarial loss – demographic assumptions	**–**	100.8
Actuarial loss/(gain) – financial assumptions	**1,614.2**	(438.5)
Exchange movement	**5.8**	11.8
Present value of obligation at end of year	**9,442.3**	7,691.2
Analysed as:		
Present value of pension scheme liabilities	**9,433.3**	7,682.3
Unfunded pension plans	**1.0**	0.9
Post-retirement healthcare	**8.0**	8.0
Present value of obligation at end of year	**9,442.3**	7,691.2

The average duration of the defined benefit obligation at 1 April 2017 is 19 years (last year 18 years).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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). Under the partnership agreement, the limited partners have no involvement in the management of the business and shall not take any part in the control of the partnership. The general partner is responsible for the management and control of the partnership and 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 into the Partnership. The first limited partnership interest (held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive an annual distribution of £71.9m until 2022 from the Partnership. The second partnership interest (also held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive a further £36.4m annually from 2017 until 2031.

The partnership liability in relation to the first interest of £396.5m (last year £455.7m) is valued at the net present value of the future expected distributions from the Partnership. During the year to 1 April 2017 an interest charge of £12.6m (last year £14.7m) was recognised in the income statement representing the unwind of the discount included in this obligation.

The first limited partnership interest of the Pension Scheme is included within the UK DB Pension Scheme assets, valued at £412.1m (last year £469.5m). It is also included as a liability on the Group's statement of financial position as it is a transferable financial instrument. The second partnership interest is not a transferable financial instrument and therefore is not included as a plan asset in accordance with IAS 19. The associated liability is eliminated on consolidation.

13 SHARE-BASED PAYMENTS

This year a charge of £10.6m was recognised for share-based payments (last year charge of £16.0m). Of the total share-based payments charge, £10.9m (last year £9.5m) relates to the Save As You Earn Scheme and a credit of £3.6m (last year charge of £1.1m) relates to the Performance Share Plan. The remaining charge of £3.3m (last year £5.4m) is spread over the other share plans. An additional charge of £1.3m was recognised in relation to the Annual Bonus Scheme for 2016/17 under the Deferred Share Bonus Plan. Further details of the operation of the Group share plans are provided in the Remuneration Report on pages 66 to 78.

A. Save As You Earn Scheme

The SAYE Scheme was last approved by shareholders in 2007 and shareholder approval is being sought at the 2017 AGM to renew the scheme for a further ten years. 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 Her Majesty's Revenue & Customs (HMRC) approved SAYE savings contract. The Company has chosen to cap the maximum monthly saving amount at £250 which is below the £500 per month allowed under HMRC approved schemes. 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.

	2017		2016	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the year	**30,154,547**	**393.3p**	29,530,523	357.6p
Granted	**28,166,455**	**260.0p**	10,437,215	432.0p
Exercised	**(1,763,039)**	**312.8p**	(6,645,922)	302.6p
Forfeited	**(12,881,484)**	**391.8p**	(2,967,697)	382.5p
Expired	**(382,385)**	**355.2p**	(199,572)	317.2p
Outstanding at end of year	**43,294,094**	**310.6p**	30,154,547	393.3p
Exercisable at end of year	**4,928,971**	**403.5p**	1,936,860	315.3p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 387.4p (last year 443.9p).

The fair values of the options granted during the year have been calculated using the Black-Scholes model assuming the inputs shown below:

	2017	**2017**	**2017**	2016
	3-year plan	**3-year plan 2016 modified[1]**	**3-year plan 2015 modified[1]**	3-year plan
Grant date	**Nov 16**	**Nov 16**	**Nov 16**	Nov 15
Share price at grant date	**335p**	**335p**	**335p**	520p
Exercise price	**260p**	**432p**	**369p**	432p
Option life in years	**3 years**	**3 years**	**3 years**	3 years
Risk-free rate	**0.2%**	**0.2%**	**0.2%**	0.9%
Expected volatility	**28.5%**	**28.5%**	**28.5%**	23.4%
Expected dividend yield	**5.6%**	**5.6%**	**5.6%**	3.7%
Fair value of option	**66p**	**19p**	**30p**	96p
Incremental fair value of option	**N/A**	**47p**	**36p**	–

1. In the current year, there has been a modification to the 2017 scheme relating to employees cancelling awards from previous years in subsitution for awards granted under the 2017 scheme. The fair value of the modified awards will be amortised based on the incremental fair value. The incremental fair value is the difference between the fair value of the 2017 options, being 66p, and the fair value of repriced previous awards, calculated using 2017 award assumptions, keeping the initial exercise price consistent. The fair value of the modified options, being 19p for 2016 modified options and 30p for 2015 modified options, is already recognised in operating profit.

13 SHARE-BASED PAYMENTS CONTINUED

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	**2017**	2016	**2017**	2016	Option price
January 2013	**–**	1,917,252	**–**	0.2	312p
January 2014	**4,854,749**	5,918,608	**0.2**	1.2	405p
January 2015	**6,280,741**	12,334,645	**1.2**	2.2	369p
January 2016	**4,676,198**	9,984,042	**2.2**	3.2	432p
January 2017	**27,482,406**	–	**3.2**	–	260p
	43,294,094	30,154,547	**2.5**	2.3	311p

B. Performance Share Plan*

The Performance Share Plan is the primary long-term incentive plan for approximately 120 of the most senior managers within the Group. It was first approved by shareholders at the 2005 AGM and again at the 2015 AGM. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which an award vests is measured over a three-year period against financial targets which for 2016/17 included Adjusted Earnings Per Share, Return on Capital Employed and free cash flow. 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 78. Awards under this plan have been made in each year since 2005.

During the year, 7,569,499 shares (last year 5,850,134) were awarded under the plan. The weighted average fair value of the shares awarded was 328.0p (last year 533.2p). As at 1 April 2017, there were 14,816,764 shares (last year 15,749,605) outstanding under the plan.

C. Deferred Share Bonus Plan*

The Deferred Share Bonus Plan was introduced in 2005/06 as part of the Annual Bonus Scheme for approximately 500 of the most senior managers within the Group. 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 within the Group and the value of any dividends earned on the vested shares during the deferred period will also be paid on vesting.

During the year, 1,563,439 shares (last year 1,044,961) have been awarded under the plan in relation to the annual bonus. The fair value of the shares awarded was 355.8p (last year 548.3p). As at 1 April 2017, there were 3,033,709 shares (last year 2,586,096) outstanding under the plan.

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 vest at the end of the restricted period (typically between one and three years) subject to the participant still being in the employment of the Company on the relevant vesting date. The value of any dividends earned on the vested shares during the restricted period will also be paid on vesting.

During the year, 321,229 shares (last year 221,681) have been awarded under the plan. The weighted average fair value of the shares awarded was 326.6p (last year 454.4p). As at 1 April 2017, there were 888,027 shares (last year 1,285,666) outstanding under the plan.

E. Republic of Ireland Save As You Earn Scheme

Sharesave, the Company's SAYE Scheme was introduced in 2009 to all employees in the Republic of Ireland for a ten-year period, after approval by shareholders at the 2009 AGM. The scheme is subject to Irish Revenue rules which limit the maximum monthly saving to €500 per month. The Company chose in 2009 to set a monthly savings cap of €320 per month to align the maximum savings amount to that allowed within the UK scheme. 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.

During the year, 324,768 options (last year 160,113) were granted, at a fair value of 66.3p (last year 95.6p). As at 1 April 2017, there were 521,837 options (last year 312,826) outstanding under the scheme.

F. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the Trust) holds 2,173,101 (last year 4,087,837) shares with a book value of £10.7m (last year £20.6m) and a market value of £7.3m (last year £16.6m). 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. Awards are granted to employees at the discretion of Marks and Spencer plc and the Trust agrees to satisfy the awards in accordance with the wishes of Marks and Spencer plc under senior executive share plans described above. Dividends are waived on all of these shares.

G. ShareBuy

ShareBuy, the Company's Share Incentive Plan enables the participants to buy shares directly from their gross salary. This scheme does not attract an IFRS 2 charge.

* Nil cost options. For the purposes of calculating the number of shares awarded, the share price used is the average of the mid-market price for the five consecutive dealing days preceding the grant date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 28 March 2015					
Cost or valuation	129.7	112.5	1,087.7	86.6	1,416.5
Accumulated amortisation and impairments	(34.4)	(55.8)	(466.9)	(1.2)	(558.3)
Net book value	95.3	56.7	620.8	85.4	858.2
Year ended 2 April 2016					
Opening net book value	95.3	56.7	620.8	85.4	858.2
Additions	6.2	–	92.9	93.9	193.0
Transfers	–	–	91.2	(91.2)	–
Asset impairments	(19.1)	(32.5)	(22.1)	–	(73.7)
Asset write-offs	–	–	(11.9)	(14.5)	(26.4)
Amortisation charge	–	(5.3)	(143.4)	–	(148.7)
Exchange difference	0.3	(0.2)	0.2	0.1	0.4
Closing net book value	82.7	18.7	627.7	73.7	802.8
At 2 April 2016					
Cost or valuation	136.2	112.3	1,272.0	89.4	1,609.9
Accumulated amortisation, impairments and write-offs	(53.5)	(93.6)	(644.3)	(15.7)	(807.1)
Net book value	82.7	18.7	627.7	73.7	802.8
Year ended 1 April 2017					
Opening net book value	**82.7**	**18.7**	**627.7**	**73.7**	**802.8**
Additions	**–**	**–**	**0.3**	**100.8**	**101.1**
Transfers	**–**	**–**	**95.8**	**(107.6)**	**(11.8)**
Asset impairments	**–**	**–**	**6.1**	**(5.1)**	**1.0**
Asset write-offs	**–**	**–**	**(9.6)**	**(2.9)**	**(12.5)**
Amortisation charge	**–**	**(5.3)**	**(162.1)**	**–**	**(167.4)**
Other[1]	**(5.5)**	**–**	**–**	**–**	**(5.5)**
Exchange difference	**1.2**	**–**	**0.2**	**(0.1)**	**1.3**
Closing net book value	**78.4**	**13.4**	**558.4**	**58.8**	**709.0**
At 1 April 2017					
Cost or valuation	**137.4**	**112.3**	**1,368.3**	**82.5**	**1,700.5**
Accumulated amortisation, impairments and write-offs	**(59.0)**	**(98.9)**	**(809.9)**	**(23.7)**	**(991.5)**
Net book value	**78.4**	**13.4**	**558.4**	**58.8**	**709.0**

Goodwill relates to the following:

	per una £m	India £m	UK £m	Total goodwill £m
Net book value at 2 April 2016	**69.5**	**7.0**	**6.2**	**82.7**
Exchange difference	**–**	**1.2**	**–**	**1.2**
Other[1]	**–**	**–**	**(5.5)**	**(5.5)**
Net book value at 1 April 2017	**69.5**	**8.2**	**0.7**	**78.4**

1. Other adjustments relate to the adjustment of provision values for business combinations related to the acquisition of Lima (Bradford) S.à r.l in the prior year.

14 INTANGIBLE ASSETS CONTINUED

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.

The costs in relation to the per una brand are £80.0m (net book value £13.4m). The per una brand is a definite life intangible asset amortised on a straight-line basis over a period of 15 years and is only assessed for impairment where such indicators exist.

The value in use calculations are based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. Cash flows beyond this three-year period are extrapolated using a flat long-term growth rate for the UK and with reference to forecast GDP growth for India. These growth rates do not exceed the long-term growth rates for the Group's retail businesses in these territories.

While management believes the assumptions used are realistic, it is possible that a further impairment could be identified for per una, Bradford or India 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 has 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 28 March 2015				
Cost	2,855.1	7,066.4	133.3	10,054.8
Accumulated depreciation, impairments and write-offs	(339.8)	(4,672.3)	(11.6)	(5,023.7)
Net book value	2,515.3	2,394.1	121.7	5,031.1
Year ended 2 April 2016				
Opening net book value	2,515.3	2,394.1	121.7	5,031.1
Additions	115.2	204.6	138.3	458.1
Transfers	1.7	186.8	(188.5)	–
Disposals	(5.0)	(0.6)	–	(5.6)
Asset impairments	(30.4)	(24.3)	(1.9)	(56.6)
Asset write-offs	–	(2.9)	–	(2.9)
Depreciation charge	(13.3)	(400.8)	–	(414.1)
Exchange difference	11.4	5.9	(0.2)	17.1
Closing net book value	2,594.9	2,362.8	69.4	5,027.1
At 2 April 2016				
Cost	2,981.6	7,476.3	82.9	10,540.8
Accumulated depreciation, impairments and write-offs	(386.7)	(5,113.5)	(13.5)	(5,513.7)
Net book value	2,594.9	2,362.8	69.4	5,027.1
Year ended 1 April 2017				
Opening net book value	**2,594.9**	**2,362.8**	**69.4**	**5,027.1**
Additions	**–**	**76.2**	**209.0**	**285.2**
Transfers	**17.4**	**189.6**	**(196.2)**	**10.8**
Disposals	**(0.6)**	**(1.0)**	**–**	**(1.6)**
Asset impairments	**(11.6)**	**(68.6)**	**(1.9)**	**(82.1)**
Asset write-offs	**(6.0)**	**(1.8)**	**(2.5)**	**(10.3)**
Depreciation charge	**(16.3)**	**(394.5)**	**–**	**(410.8)**
Exchange difference	**10.0**	**9.2**	**0.3**	**19.5**
Closing net book value	**2,587.8**	**2,171.9**	**78.1**	**4,837.8**
At 1 April 2017				
Cost	**3,008.4**	**7,750.3**	**96.0**	**10,854.7**
Accumulated depreciation, impairments and write-offs	**(420.6)**	**(5,578.4)**	**(17.9)**	**(6,016.9)**
Net book value	**2,587.8**	**2,171.9**	**78.1**	**4,837.8**

The net book value above includes land and buildings of £42.1m (last year £42.6m) and equipment of nil (last year £0.2m) 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 finance leases.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Impairment of property, plant and equipment

For impairment testing purposes, the Group has determined that each store is a separate CGU with the exception of outlet stores which are considered together as one CGU. Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. The recoverable value of each CGU is determined to be the higher of value in use and fair value less costs to sell.

The value in use of each CGU is calculated based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed initiatives. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. Cash flows beyond this three-year period are extrapolated using a flat long-term growth rate for UK stores and with reference to forecast GDP growth for other territories. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in these territories.

The key assumptions in the value in use calculations are the growth rates of sales and gross profit margins, changes in the operating cost base, long-term growth rates and the risk-adjusted pre-tax discount rate. The pre-tax discount rates are derived from 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 for each territory. The pre-tax discount rates range from 7% to 21% (last year 7% to 24%).

Where appropriate, fair value less cost to sell is determined with regard to the expected rent and yield for each property and reflect the specific characteristics relevant to each property and the location in which it is based. The fair values have been determined with the assistance of independent, professional valuers.

During the year the Group has recognised a net impairment charge of £43.4m (gross impairment charge of £47.5m offset by an impairment reversal of £4.1m) as a result of store impairment testing. The gross impairment charge relates primarily to stores in the UK and Hong Kong, with the reversal of impairment relating to stores in Ireland due largely to the movement in the Sterling to Euro currency rate. These impairments, including the reversal, have been recognised within adjusted items (see Note 5).

The Group has performed a sensitivity analysis on the impairment tests for its UK store portfolio using various reasonably possible scenarios. An increase of one percentage point in the post-tax discount rate would have resulted in an increase to the impairment charge of £6.5m. Neither a 2% reduction in year one sales growth nor a 20bps reduction in total UK margin would result in a significant increase to the impairment charge.

In addition the Group has recognised additional impairment charges of £27.3m associated with stores approved for closure during the year, £13.1m associated with the exit from owned stores in ten international markets and £5.7m associated with the rationalisation of UK Head Offices. Offsetting these charges were impairment reversals of £7.4m following an updated view of the logistics strategy. These net charges have been recognised within adjusted items (see Note 5).

16 OTHER FINANCIAL ASSETS

	2017 £m	2016 £m
Non-current		
Unlisted investments	**3.0**	3.0
Current		
Short-term investments[1]	**14.5**	19.1

1. Includes £5.3m (last year £3.6m) of money market deposit held by Marks and Spencer plc in an escrow account

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

	2017 £m	2016 £m
Non-current		
Other receivables	**15.1**	12.9
Prepayments and accrued income	**219.0**	221.8
	234.1	234.7
Current		
Trade receivables	**111.0**	116.5
Less: provision for impairment of receivables	**(1.7)**	(0.7)
Trade receivables – net	**109.3**	115.8
Other receivables	**28.5**	50.4
Prepayments and accrued income	**180.8**	154.9
	318.6	321.1

Trade and other receivables that were past due but not impaired amounted to £20.8m (last year £19.6m) and are mainly sterling denominated. The directors consider that the carrying amount of trade and other receivables approximates their fair value. Included in prepayments and accrued income is £31.5m (last year £19.4m) of accrued supplier income relating to rebates which have been earned but not yet invoiced. Supplier income that has been invoiced but not yet settled against future trade creditor balances is included within trade creditors where there is a right to offset. The remaining amount is immaterial.

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are £468.6m (last year £247.6m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.21% (last year 0.51%). These deposits have an average maturity of eight days (last year 48 days).

19 TRADE AND OTHER PAYABLES

	2017 £m	2016 £m
Current		
Trade and other payables	**967.5**	1,021.9
Social security and other taxes	**55.0**	49.8
Accruals and deferred income	**531.3**	546.0
	1,553.8	1,617.7
Non-current		
Other payables , accruals and deferred income	**328.5**	353.0

20 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2017 £m	2016 £m
Current		
Bank loans and overdrafts[1]	**70.3**	297.1
Finance lease liabilities	**0.4**	0.4
6.250% US$500m medium-term notes 2017[3&4]	**328.1**	–
Interest accrued on medium-term notes[6]	**46.4**	–
Revaluation of medium-term notes[6]	**72.8**	–
	518.0	297.5
Non-current		
Bank loans	**–**	0.2
6.250% US$500m medium-term notes 2017[3&4]	**–**	327.9
6.125% £400m medium-term notes 2019[2&5]	**400.2**	399.3
6.125% £300m medium-term notes 2021[2]	**297.8**	297.3
3.00% £300m medium-term notes 2023[2]	**296.3**	–
4.750% £400m medium-term notes 2025[2&5]	**397.1**	396.8
7.125% US$300m medium-term notes 2037[3&4]	**191.9**	191.8
Interest accrued on medium-term notes[6]	**–**	42.2
Revaluation of medium-term notes[6]	**80.1**	71.0
Finance lease liabilities	**48.3**	48.2
	1,711.7	1,774.7
Total	**2,229.7**	2,072.2

1. Bank loans and overdrafts include a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture.
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. US$500m and US$300m medium-term notes exposure swapped to sterling (fixed-to-fixed cross-currency interest rate swaps).
5. The Group occasionally enters into interest swaps to manage interest rate exposure. At year end, £425m (last year £425m) was swapped from fixed to floating rate.
6. The prior year comparatives have been split to show the interest accrued on medium-term notes and revaluation of medium-term notes on individual line items to be in line with the format of the current year note disclosure.

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 properties and equipment under finance leases. The weighted average lease term for equipment is three years (last year four years) and 95 years (last year 96 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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 swaps, cross-currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and foreign 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 liquidation of 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 and funding, counterparty, foreign currency and interest rate risks. The policies and strategies for managing these risks are summarised on the following pages:

(a) Liquidity and 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 sufficient headroom, maturity and flexibility and cost effectiveness to match the requirements of the Group.

→ Marks and Spencer plc is financed by a combination of retained profits, bank borrowings, medium-term notes and committed syndicated bank facilities.

→ Operating subsidiaries are financed by a combination of retained profits, bank borrowings and intercompany loans.

At the year end, the Group had a committed syndicated bank revolving credit facility of £1.1bn set to mature on 15 April 2022. During the current financial year, the Group extended the facility by one year. This facility contains only one financial covenant, being the ratio of earnings before interest, tax, depreciation, amortisation and rents payable, to interest plus rents payable. The covenant is measured semi-annually. The Group also has a number of undrawn uncommitted facilities available to it. At the year end, these amounted to £150m (last year £100m), all of which are due to be reviewed within a year. At the balance sheet date, a sterling equivalent of £nil (last year £205m) was drawn under the committed facilities and £nil (last year £30m) 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 £1.4bn (last year £1.1bn) was in issuance as at the balance sheet date. A new £300m bond, set to mature in 2023, was issued under the Euro Medium Term Note programme during the financial year.

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 (note 12) £m	Total borrowings and other financial liabilities £m	Derivative assets[1] £m	Derivative liabilities[1] £m	Total derivative assets and liabilities £m
Timing of cash flows									
Within one year	(92.2)	(205.1)	(98.6)	(2.4)	(71.9)	(470.2)	117.5	(62.8)	54.7
Between one and two years	–	–	(448.1)	(2.6)	(71.9)	(522.6)	399.3	(362.6)	36.7
Between two and five years	–	–	(605.9)	(7.1)	(215.6)	(828.6)	61.4	(41.2)	20.2
More than five years	–	–	(1,329.3)	(176.9)	(143.7)	(1,649.9)	465.6	(427.0)	38.6
	(92.2)	(205.1)	(2,481.9)	(189.0)	(503.1)	(3,471.3)	1,043.8	(893.6)	150.2
Effect of discounting	–	–	755.6	140.4	47.4	943.4			
At 2 April 2016	(92.2)	(205.1)	(1,726.3)	(48.6)	(455.7)	(2,527.9)			
Timing of cash flows									
Within one year	**(70.3)**	**–**	**(514.2)**	**(2.5)**	**(71.9)**	**(658.9)**	**543.6**	**(373.4)**	**170.2**
Between one and two years	**–**	**–**	**(88.0)**	**(2.6)**	**(71.9)**	**(162.5)**	**26.7**	**(14.5)**	**12.2**
Between two and five years	**–**	**–**	**(915.1)**	**(7.3)**	**(215.6)**	**(1,138.0)**	**63.9**	**(41.2)**	**22.7**
More than five years	**–**	**–**	**(1,309.0)**	**(176.0)**	**(71.9)**	**(1,556.9)**	**519.5**	**(413.2)**	**106.3**
	(70.3)	**–**	**(2,826.3)**	**(188.4)**	**(431.3)**	**(3,516.3)**	**1,153.7**	**(842.3)**	**311.4**
Effect of discounting	**–**	**–**	**715.6**	**139.7**	**34.8**	**890.1**			
At 1 April 2017	**(70.3)**	**–**	**(2,110.7)**	**(48.7)**	**(396.5)**	**(2,626.2)**			

1. Derivative cash flows are disclosed based on actual settlement. All derivatives are settled net, except for currency swaps.

21 FINANCIAL INSTRUMENTS CONTINUED

Financial risk management continued
(a) Liquidity and funding risk continued

The present value of finance lease liabilities is as follows:

	2017 £m	2016 £m
Within one year	**(0.4)**	(0.4)
Later than one year and not later than five years	**(1.6)**	(1.6)
Later than five years	**(46.7)**	(46.6)
Total	**(48.7)**	(48.6)

(b) Counterparty risk

Counterparty risk exists where the Group can suffer financial loss through default or non-performance by financial institutions with whom it transacts.

Exposures are managed in accordance with the Group's treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The minimum long-term rating for all counterparties is long-term Standard & Poor's (A-)/Moody's (A3) ((BBB+/Baa1 for committed lending banks). In the event of a rating by one agency being different to the other, reference will be made to Fitch to determine the casting vote of the rating group. In the absence of a Fitch rating, the lower rating will prevail. 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								
	AAAm £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total £m
Short term investments[1]	–	–	–	25.1	60.6	63.5	–	–	149.2
Derivative assets[2]	–	–	–	42.6	33.3	23.4	–	18.2	117.5
At 2 April 2016	–	–	–	67.7	93.9	86.9	–	18.2	266.7

	AAAm £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total £m
Short-term investments[1]	**–**	**–**	**–**	**17.4**	**149.3**	**185.0**	**–**	**–**	**351.7**
Derivative assets[2]	**–**	**–**	**–**	**62.8**	**84.1**	**19.0**	**–**	**41.0**	**206.9**
At 1 April 2017	**–**	**–**	**–**	**80.2**	**233.4**	**204.0**	**–**	**41.0**	**558.6**

1. Includes cash on deposit and money market funds held by Marks & Spencer Scottish Limited Partnership, Marks and Spencer plc and Marks and Spencer General Insurance. Excludes cash at hand and in transit of £116.9m (last year £98.4m).
2. Standard & Poor's equivalent rating shown as reference to the majority credit rating of the counterparty from either Standard & Poor's, Moody's or Fitch where applicable.

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 £111m (last year £114m), other receivables £44m (last year £63m), cash and cash equivalents £469m (last year £248m) and derivatives £220m (last year £146m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Financial risk management continued

(c) Foreign currency risk

Transactional foreign currency exposures arise primarily from the import of goods sourced from overseas suppliers and also from the export of goods from the UK to overseas subsidiaries. The most significant exposure is to the US dollar incurred in the sourcing of clothing and home products from Asia.

Group Treasury hedges these exposures principally using forward foreign exchange contracts progressively based on dynamic forecasts from the business. Hedging begins around 15 months ahead of the start of the season and is between 80% and 100% hedged nine months before the start of the season.

Other exposures from the export of goods to overseas subsidiaries are also hedged progressively over the course of the year before they are incurred. As at the balance sheet date, the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £2,023m (last year £1,640m) with a weighted average maturity date of six months (last year five months).

Gains and losses in equity on forward foreign exchange contracts designated in cash flow hedge relationships as at 1 April 2017 will be released to the income statement at various dates over the following 17 months (last year 15 months) from the balance sheet date.

The Group also holds a number of cross-currency swaps to designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges.

The Group uses a combination of foreign currency debt and derivatives to hedge balance sheet translation exposures. As at the balance sheet date €26m (last year €nil) and HK$190m (last year HK$1,245m) of derivatives were hedging overseas net assets.

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance resulted in a £2.3m gain (last year £nil) in the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £367m (last year £289m).

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, is set out below:

	2017			2016		
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**1,727.8**	**492.3**	**2,220.1**	1,343.7	716.7	2,060.4
Euro	**6.6**	**0.7**	**7.3**	6.2	0.8	7.0
Other	**0.1**	**2.2**	**2.3**	0.1	4.7	4.8
	1,734.5	**495.2**	**2,229.7**	1,350.0	722.2	2,072.2

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 5.0% (last year 5.3%) and the weighted average time for which the rate is fixed is six years (last year seven 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 £1,734.5m (last year £1,350.0m) representing the public bond issues and finance leases, amounting to 78% (last year 65%) of the Group's gross borrowings.

The effective interest rates at the balance sheet date were as follows:

	2017 %	2016 %
Committed and uncommitted borrowings	**0.3**	1.0
Medium-term notes	**5.0**	5.3
Finance leases	**4.3**	4.1

21 FINANCIAL INSTRUMENTS CONTINUED

Financial risk management continued
(d) Interest rate risk continued

Derivative financial instruments

		2017 Assets £m	2017 Liabilities £m	2016 Assets £m	2016 Liabilities £m
Current					
Cross-currency swaps	– cash flow hedges	**72.6**	**–**	–	–
Forward foreign exchange contracts	– cash flow hedges	**89.1**	**(9.0)**	69.7	(26.7)
	– held for trading	**0.7**	**(1.5)**	1.6	(1.8)
	– net investment hedges	**0.7**	**–**	0.8	–
		163.1	**(10.5)**	72.1	(28.5)
Non-current					
Cross-currency swaps	– cash flow hedges	**14.0**	**–**	27.3	–
Forward foreign exchange contracts	– cash flow hedges	**1.3**	**(0.8)**	5.4	(0.2)
Interest rate swaps	– fair value hedges	**41.5**	**–**	41.3	–
		56.8	**(0.8)**	74.0	(0.2)

The Group holds a number of interest rate swaps to re-designate its sterling fixed debt to floating debt. These are reported as fair value hedges. The ineffective portion recognised in the profit or loss that arises from fair value hedges amounts to £0.3m (last year £0.2m) as the loss on the hedged items was £0.3m (last year £3.0m loss) and the gain on the hedging instruments was £nil (last year £2.8m gain). The Group also holds a number of cross-currency swaps to re-designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges.

Sensitivity analysis

The table below illustrates the estimated impact on the income statement and equity as a result of market movements in foreign exchange and interest rates in relation to the Group's financial instruments. The directors consider that a 2%+/- (last year 2%) movement in interest and a 20% +/- (last year 20%) weakening in sterling against the relevant currency represents a reasonably possible change. However, this analysis is for illustrative purposes only.

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.

Interest rates: 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 transactional foreign exchange cash flow hedges and the net investment hedges at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Group's cross-currency swaps.

Foreign exchange: the impact from foreign exchange movements reflects the change in the fair value of the Group's transactional foreign exchange cash flow hedges and the net investment hedges at the balance sheet date. The equity impact shown for foreign exchange sensitivity relates to derivative and non-derivative financial instruments hedging net investments. This value is expected to be fully offset by the re-translation of the hedged foreign currency net assets leaving a net equity impact of zero.

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 2 April 2016				
Impact on income statement: gain/(loss)	9.2	(11.1)	–	–
Impact on other comprehensive income: (loss)/gain	(0.8)	1.0	136.0	(90.7)
At 1 April 2017				
Impact on income statement: gain/(loss)	**7.8**	**(2.1)**	**–**	**–**
Impact on other comprehensive income: (loss)/gain	**(2.2)**	**0.3**	**246.4**	**(164.3)**

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 balance sheet are set out below. For trade and other receivables and trade and other payables, amounts not offset in the balance sheet 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 2 April 2016					
Trade and other receivables	31.6	(29.5)	2.1	–	2.1
Derivative financial assets	146.1	–	146.1	(28.7)	117.4
Cash and cash equivalents	39.3	(39.3)	–	–	–
	217.0	(68.8)	148.2	(28.7)	119.5
Trade and other payables	(259.3)	29.5	(229.8)	–	(229.8)
Derivative financial liabilities	(28.7)	–	(28.7)	28.7	–
Bank loans and overdrafts	(90.8)	39.3	(51.5)	–	(51.5)
	(378.8)	68.8	(310.0)	28.7	(281.3)

	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 1 April 2017					
Trade and other receivables	**25.1**	**(22.8)**	**2.3**	**–**	**2.3**
Derivative financial assets	**219.9**	**–**	**219.9**	**(11.3)**	**208.6**
Cash and cash equivalents	**42.4**	**(41.6)**	**0.8**	**–**	**0.8**
	287.4	**(64.4)**	**223.0**	**(11.3)**	**211.7**
Trade and other payables	**(279.2)**	**22.8**	**(256.4)**	**–**	**(256.4)**
Derivative financial liabilities	**(11.3)**	**–**	**(11.3)**	**11.3**	**–**
Bank loans and overdrafts	**(103.9)**	**41.6**	**(62.3)**	**–**	**(62.3)**
	(394.4)	**–**	**(330.0)**	**11.3**	**(318.7)**

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 ISDA (International Swaps and Derivatives Association) 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 Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- → Level 1: quoted (unadjusted) prices in active markets for identical assets 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 interest rate and foreign exchange derivatives. Fair value is calculated using discounted cash flow methodology, future cash flows are estimated based on forward exchange rates and interest rates (from observable market curves) and contract rates, discounted at a rate that reflects the credit risk of the various counterparties for those with a long maturity.
- → Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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:

	2017				2016			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit or loss								
– trading derivatives	**–**	**0.7**	**–**	**0.7**	–	1.4	–	1.4
Derivatives used for hedging	**–**	**219.2**	**–**	**219.2**	–	144.7	–	144.7
Short- term investments	**–**	**14.5**	**–**	**14.5**	–	19.1	–	19.1
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
– trading derivatives	**–**	**(1.5)**	**–**	**(1.5)**	–	(1.8)	–	(1.8)
Derivatives used for hedging	**–**	**(9.8)**	**–**	**(9.8)**	–	(26.9)	–	(26.9)

The Marks & Spencer DB Pension Schemes holds a number of financial instruments which make up the pension asset of £10,135.1m (last year £8,515.3m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £8,690.2m (last year £7,296.2m). Additionally, the pension scheme assets include £1,444.9m (last year £1,219.1m) of Level 3 financial assets. See note 11 for information on the Group's retirement benefits.

There were no transfers between the levels of the fair value hierarchy. In addition to the above, the Group has £3.0m (last year £3.0m) in unlisted equity securities measured at cost (see note 16).

The following table represents the changes in Level 3 instruments held by the Pension Schemes:

	2017 £m	2016 £m
Opening balance	**1,219.1**	1,093.6
Fair value gain recognised in other comprehensive income	**100.6**	70.3
Additional investment/(derecognition)	**125.2**	55.2
Closing balance	**1,444.9**	1,219.1

In the prior year the Group purchased Lima (Bradford) S.à r.l. This resulted in the derecognition of the embedded derivative as the lease contract was between subsidiaries of the Group. Gains recognised in the prior year income statement related to the valuation of the embedded derivative in the lease contract up until the acquisition date. The fair value movement of the embedded derivative of £2.0m loss and subsequent derecognition of the asset (£21.7m) was treated as an adjustment to reported profit in the prior year (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 (Level 1 equivalent) was £2,110.7m (last year £1,726.4m); the fair value of this debt was £2,236.7m (last year £1,868.3m).

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 seven 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

22 PROVISIONS

	Property £m	Restructuring £m	Other £m	2017 £m	2016 £m
At 2 April 2016	**52.4**	**9.8**	**3.8**	**66.0**	78.3
Provided in the year	**104.5**	**116.8**	**24.7**	**246.0**	40.0
Released in the year	**(19.4)**	**(5.8)**	**(1.1)**	**(26.3)**	(31.5)
Utilised during the year	**(9.4)**	**(20.9)**	**0.1**	**(30.2)**	(21.6)
Exchange differences	**0.4**	**2.9**	**0.1**	**3.4**	0.4
Discount rate unwind	**0.2**	**–**	**–**	**0.2**	0.4
Reclassification from trade and other payables	**–**	**(1.2)**	**2.8**	**1.6**	–
At 1 April 2017	**128.7**	**101.6**	**30.4**	**260.7**	66.0
Analysed as:					
Current				**147.2**	14.0
Non-current				**113.5**	52.0

Property provisions relate to onerous lease contracts and dilapidations primarily arising as a result of the closure of stores in the UK, as part of the UK store estate strategic programme, together with the centralisation of the London Head Office functions into one central London location. These provisions are expected to be utilised over the period to the end of each specific lease.

Restructuring provisions primarily relate to the estimated costs associated with the International exit strategy which include lease exit costs. These provisions are expected to be utilised within the next year.

Other provisions include £23.6m of transition payments due following completion of the consultation in respect of pay and premia.

Please see note 5 for further information on these provisions.

23 DEFERRED TAX

Deferred tax is provided under the balance sheet liability method using the tax rate at which the balances are expected to unwind of 19% and 17% (last year 20%, 19% and 18%) 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 the offsetting of balances within the same jurisdiction as permitted by IAS 12 'Income Taxes') during the year are shown below.

Deferred tax assets/(liabilities):

	Land and buildings temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 28 March 2015	(47.0)	(106.0)	(154.8)	(3.1)	(310.9)	(3.2)	(314.1)
Credited/(charged) to income statement	6.4	25.9	0.7	3.0	36.0	(2.5)	33.5
Credited/(charged) to equity/other comprehensive income	–	–	(51.4)	(1.8)	(53.2)	2.4	(50.8)
Other balance sheet movement	(6.2)	–	–	–	(6.2)	–	(6.2)
At 2 April 2016	(46.8)	(80.1)	(205.5)	(1.9)	(334.3)	(3.3)	(337.6)
At 3 April 2016	**(46.8)**	**(80.1)**	**(205.5)**	**(1.9)**	**(334.3)**	**(3.3)**	**(337.6)**
Credited/(charged) to income statement	**3.5**	**17.7**	**14.5**	**1.4**	**37.1**	**(0.7)**	**36.4**
Credited/(charged) to equity/other comprehensive income	**–**	**–**	**21.6**	**4.8**	**26.4**	**(5.2)**	**21.2**
Other balance sheet movement	**–**	**–**	**–**	**(1.6)**	**(1.6)**	**(0.2)**	**(1.8)**
At 1 April 2017	**(43.3)**	**(62.4)**	**(169.4)**	**2.7**	**(272.4)**	**(9.4)**	**(281.8)**

Other short-term temporary differences relate mainly to employee share options and financial instruments.

Other balance sheet movements, categorised as other short-term temporary differences, include £1.4m in relation to recognition of a deferred tax liability on the acquisition of the remaining 50% stake in Lima (Bradford) S.à r.l.

The deferred tax liability on land and buildings temporary differences is reduced by the benefit of capital losses with a gross value of £254.5m (last year £249.5m) and a tax value of £48.4m (last year £49.9m).

23 DEFERRED TAX CONTINUED

Due to uncertainty over their future use, no benefit has been recognised in respect of trading losses carried forward in overseas jurisdictions with a gross value of £147.9m (last year £106.6m) and a tax value of £34.2m (last year £22.3m).

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures unless a material liability is expected to arise on an anticipated distribution of these earnings under applicable tax legislation. Undistributed earnings with a gross value of £38.2m (last year £30.6m) and a potential tax liability of £9.0m (last year £7.2m) have not been recognised on the basis that the distribution can be controlled by the Group.

24 ORDINARY SHARE CAPITAL

	2017		2016	
	Shares	**£m**	Shares	£m
Issued and fully paid ordinary shares of 25p each				
At start of year	**1,622,964,807**	**405.8**	1,647,814,746	412.0
Shares issued on exercise of share options	**1,763,039**	**0.4**	6,797,209	1.7
Shares cancelled through share buy back	**–**	**–**	(31,647,148)	(7.9)
At end of year	**1,624,727,846**	**406.2**	1,622,964,807	405.8

Issue of new shares

1,763,039 (last year 6,797,209) ordinary shares having a nominal value of £0.4m (last year £1.7m) were allotted during the year under the terms of the Company's schemes which are described in note 13. The aggregate consideration received was £5.5m (last year £20.6m).

Share buy back

Last year 31,647,148 ordinary shares having a nominal value of £7.9m were bought back and subsequently cancelled during the year. The aggregate consideration paid, including directly attributable costs was £150.7m. There was no buyback programme in the current year.

25 CONTINGENCIES AND COMMITMENTS

A. Capital commitments

	2017 £m	2016 £m
Commitments in respect of properties in the course of construction	**156.4**	129.2
Software capital commitments	**11.0**	17.1
	167.4	146.3

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 which are currently owned and operated by the warehouse operators on the Group's behalf (at values ranging from historical net book value to market value).

See note 12 for details on the Partnership arrangement with the Marks & Spencer UK DB 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.

	2017 £m	2016 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	**342.0**	311.3
– Later than one year and not later than five years	**1,115.9**	1,108.4
– Later than five years and not later than ten years	**964.1**	1,099.4
– Later than ten years and not later than 15 years	**421.9**	542.8
– Later than 15 years and not later than 20 years	**285.3**	351.9
– Later than 20 years and not later than 25 years	**166.8**	225.8
– Later than 25 years	**1,069.5**	970.3
Total	**4,365.5**	4,609.9

The total non-cancellable future sub-lease payments to be received are £34.6m (last year £36.1m).

Of the total commitments under operating leases disclosed above, £70m are already provided for on the balance sheet with regards to expected lease exit costs arising from the International strategic programme.

26 ANALYSIS OF CASH FLOWS GIVEN IN THE STATEMENT OF CASH FLOWS

Cash flows from operating activities

	2017 £m	2016 £m
Profit on ordinary activities after taxation	**115.7**	404.4
Income tax expense	**60.7**	84.4
Finance costs	**113.0**	116.4
Finance income	**(36.2)**	(21.1)
Operating profit	**253.2**	584.1
Depreciation, amortisation and asset impairments and write-offs before adjusted items	**589.5**	576.8
Share-based payments charge	**10.6**	16.0
Pension costs charged against operating profit	**100.3**	102.0
Adjusted profit items	**437.4**	200.8
Decrease/(increase) in inventories	**53.9**	(22.5)
(Increase)/decrease in receivables	**(9.9)**	3.3
(Decrease)/increase in payables	**(53.1)**	32.4
Adjusted items cash outflows	**(36.8)**	(12.9)
Adjusted items non-cash	**(44.1)**	(50.3)
Cash contributions to pension schemes	**(135.3)**	(118.4)
Cash generated from operations	**1,165.7**	1,311.3

Adjusted items cash outflows relate to the utilisation of the provisions for international store closures, strategic programme costs associated with the UK store estate, UK organisation and UK logistics and legal settlements. Adjusted items non-cash relate to 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 3 April 2016 £m	Cash flow £m	Exchange and other non-cash movements £m	At 1 April 2017 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 20)	(297.3)	237.2	(10.2)	**(70.3)**
Less: amounts treated as financing (see below)	245.7	(248.0)	10.2	**7.9**
	(51.6)	(10.8)	–	**(62.4)**
Cash and cash equivalents (see note 18)	247.6	215.4	5.6	**468.6**
Net cash per statement of cash flows	196.0	204.6	5.6	**406.2**
Current financial assets (see note 16)	19.1	(4.6)	–	**14.5**
Debt financing				
Bank loans, and overdrafts treated as financing (see above)	(245.7)	248.0	(10.2)	**(7.9)**
Medium-term notes (see note 20)	(1,613.8)	(300.0)	2.4	**(1,911.4)**
Finance lease liabilities (see note 20)	(48.6)	2.0	(2.1)	**(48.7)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(445.3)	57.9	–	**(387.4)**
Debt financing	(2,353.4)	7.9	(9.9)	**(2,355.4)**
Net debt	(2,138.3)	207.9	(4.3)	**(1,934.7)**

27 ANALYSIS OF NET DEBT CONTINUED

B. Reconciliation of net debt to statement of financial position

	2017 £m	2016 £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 18)	**468.6**	247.6
Current financial assets (see note 16)	**14.5**	19.1
Bank loans and overdrafts (see note 20)	**(70.3)**	(297.3)
Medium-term notes – net of hedging derivatives	**(1,957.8)**	(1,656.1)
Finance lease liabilities (see note 20)	**(48.7)**	(48.6)
Partnership liability to the Marks & Spencer UK Pension Scheme (see notes 12 and 21)	**(396.5)**	(455.7)
	(1,990.2)	(2,191.0)
Interest payable included within related borrowing and the Partnership liability to the Marks & Spencer UK Pension Scheme	**55.5**	52.7
Total net debt	**(1,934.7)**	(2,138.3)

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.

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 2015. Interest was charged on the loan at 2.0% until 31 December 2009 and 0.5% thereafter.

C. Marks & Spencer UK Pension Scheme
Details of other transactions and balances held with the Marks & Spencer UK Pension Scheme are set out in notes 11 and 12.

D. Key management compensation
The Group has determined that the key management personnel constitute the Board for the whole year and the members of the Operating Committee with effect from November 2016, when the terms of reference of the Operating Committee were ratified. For the whole of the prior year the Group had determined that only members of the Board were key management personnel.

	2017 £m	2016 £m
Salaries and short-term benefits	**8.1**	7.5
Share-based payments	**–**	0.3
Total	**8.1**	7.8

E. Other related party transactions
There were no related party transactions during the year to 1 April 2017. Last year, supplier transactions occurred between the Group and a company controlled by Martha Lane Fox's partner. Martha was a non-executive director of the Group, retiring from the Board on 2 April 2016. These transactions amounted to £2.6m during the year with an outstanding trade payable of £0.2m at 2 April 2016.

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	As at 1 April 2017 £m	As at 2 April 2016 £m
Assets			
Non-current assets			
Investments in subsidiary undertakings	C6	**9,249.3**	9,235.8
Total assets		**9,249.3**	9,235.8
Liabilities			
Current liabilities			
Amounts owed to subsidiary undertakings		**2,552.2**	2,559.2
Total liabilities		**2,552.2**	2,559.2
Net assets		**6,697.1**	6,676.6
Equity			
Ordinary share capital		**406.2**	405.8
Share premium account		**416.4**	411.3
Capital redemption reserve		**2,210.5**	2,210.5
Merger reserve		**1,397.3**	1,397.3
Retained earnings		**2,266.7**	2,251.7
Total equity		**6,697.1**	6,676.6

The Company's profit for the year was £379.0m (last year £302.1m)

The Company financial statements were approved by the Board and authorised for issue on 23 May 2017. The financial statements also comprise the notes on pages 129 to 131.

Steve Rowe Chief Executive Officer **Helen Weir** Chief Finance Officer

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 29 March 2015	412.0	392.4	2,202.6	1,397.3	2,392.6	6,796.9
Profit for the year	–	–	–	–	302.1	302.1
Dividends	–	–	–	–	(301.7)	(301.7)
Capital contribution for share-based payments	–	–	–	–	9.4	9.4
Shares purchased in buy-back	(7.9)	–	7.9	–	(150.7)	(150.7)
Shares issued on exercise of employee share options	1.7	18.9	–	–	–	20.6
At 2 April 2016	**405.8**	**411.3**	**2,210.5**	**1,397.3**	**2,251.7**	**6,676.6**
At 3 April 2016	**405.8**	**411.3**	**2,210.5**	**1,397.3**	**2,251.7**	**6,676.6**
Profit for the year	**–**	**–**	**–**	**–**	**379.0**	**379.0**
Dividends	**–**	**–**	**–**	**–**	**(377.5)**	**(377.5)**
Capital contribution for share-based payments	**–**	**–**	**–**	**–**	**13.5**	**13.5**
Shares issued on exercise of employee share options	**0.4**	**5.1**	**–**	**–**	**–**	**5.5**
At 1 April 2017	**406.2**	**416.4**	**2,210.5**	**1,397.3**	**2,266.7**	**6,697.1**

COMPANY STATEMENT OF CASH FLOWS

	52 weeks ended 1 April 2017 £m	53 weeks ended 2 April 2016 £m
Cash flow from investing activities		
Dividends received	**379.0**	302.1
Net cash generated from investing activities	**379.0**	302.1
Cash flows from financing activities		
Shares issued on exercise of employee share options	**5.5**	20.6
Shares purchased in buy-back	**–**	(150.7)
Repayment of intercompany loan	**(7.0)**	129.7
Equity dividends paid	**(377.5)**	(301.7)
Net cash used in financing activities	**(379.0)**	(302.1)
Net cash inflow from activities	**–**	–
Cash and cash equivalents at beginning and end of year	**–**	–

NOTES TO THE COMPANY 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 £936,000 (last year £956,000). The Company did not operate any pension schemes during the current or preceding year.

C3 AUDITOR'S REMUNERATION

Auditor's 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

	2017 per share	2016 per share	**2017 £m**	2016 £m
Dividends on equity ordinary shares				
Paid final dividend	**11.9p**	11.6p	**192.7**	190.8
Special dividend	**4.6p**	–	**74.5**	–
Paid interim dividend	**6.8p**	6.8p	**110.3**	110.9
	23.3p	18.4p	**377.5**	301.7

The directors have proposed a final dividend in respect of the year ended 1 April 2017 of 11.9p per share (last year 11.9p), amounting to a dividend of £193.3m (last year £192.7m). This payment is subject to approval of shareholders at the Annual General Meeting, to be held on 11 July 2017.

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 1 June 2017. For those shareholders electing to receive the DRIP the last date for receipt of a new election is 23 June 2017.

C5 RELATED PARTY TRANSACTIONS

During the year, the Company has received dividends from Marks and Spencer plc of £379.0m (last year £302.1m) and decreased its loan from Marks and Spencer plc by £7.0m (last year increased by £129.7m). The outstanding balance was £2,552.2m (last year £2,559.2m) and is non-interest bearing. There were no other related party transactions.

C6 INVESTMENTS

A. Investments in subsidiary undertakings

	2017 £m	2016 £m
Beginning of the year	**9,235.8**	9,226.4
Additional investment in subsidiary undertakings relating to share-based payments	**13.5**	9.4
End of the year	**9,249.3**	9,235.8

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

C6 INVESTMENTS CONTINUED

B Related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of related undertakings, the country of incorporation and the effective percentage of equity owned, as at 1 April 2017 is disclosed below.

Subsidiary undertakings registered in the UK[i]

Name	Share Class	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)
Amethyst Leasing (Holdings) Limited	£1 Ordinary	0	100
Hedge End Park Limited Registered Office: 33 Holborn, London, EC1N 2HT	£1 Ordinary	0	50
M&S Limited	£1 Ordinary	0	100
Manford (Textiles) Limited	£1 Ordinary	0	100
Marks & Spencer Company Archive CIC	£1 Ordinary	0	100
Marks & Spencer Outlet Limited	£1 Ordinary	0	100
Marks & Spencer Simply Foods Limited	£1 Ordinary	0	100
Marks and Sparks Limited	£1 Ordinary	0	100
Marks and Spencer (Northern Ireland) Limited Registered Office: 8 Laganbank Road, Belfast, BT1 3LR	£1 Ordinary	0	100
Marks and Spencer (Property Investments) Limited	£1 Ordinary	0	100
Marks and Spencer Chester Limited	£1 Ordinary	0	100
Marks and Spencer France Limited	£1 Ordinary	0	100
Marks and Spencer Guernsey Investments LLP	£1 Ordinary	0	100
Marks and Spencer International Holdings Limited	£1 Ordinary	0	100
Marks and Spencer Pension Trust Investments Limited	£1 Ordinary	0	100
Marks and Spencer Pension Trust Limited[ii]	£1 A Ordinary	100	0
	£1 B Ordinary	0	0
	£1 C Ordinary	0	0
Marks and Spencer plc	£0.25 Ordinary	100	0
Marks and Spencer Property Developments Limited	£1 Ordinary	0	100
Marks and Spencer Scottish Limited Partnership[iii] Registered Office: 2-28 St Nicholas Street, Aberdeen, AB10 1BU	Partnership interest	0	100
Marks and Spencer Shared Services Limited	£1 Ordinary	0	100
Minterton Services Limited	£1 Ordinary	0	100
Marks and Spencer (Bradford) Limited	£1 Ordinary	0	100
Ruby Properties (Enfield) Limited	£1 Ordinary	0	100
St. Michael (Textiles) Limited	£1 Ordinary	0	100
St. Michael Finance plc	£1 Ordinary	0	100

UK registered subsidiaries exempt from audit

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 1 April 2017. Unless otherwise stated, the undertakings listed below are registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom, and all have a single class of ordinary share with a nominal value of £1.

Name	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Company Number
Amethyst Leasing (Properties) Limited	0	100	04246934
Busyexport Limited	0	100	04411320
Marks and Spencer (Initial LP) Limited Registered Office: No. 2 Lochrin Square, 96 Fountainbridge, Edinburgh, Midlothian, EH3 9QA	100	0	SC315365
Marks and Spencer (Property Ventures) Limited	0	100	05502513
Marks and Spencer 2005 (Brooklands Store) Limited	0	100	05502608
Marks and Spencer 2005 (Chester Satellite Store) Limited	0	100	05502519
Marks and Spencer 2005 (Chester Store) Limited	0	100	05502542
Marks and Spencer 2005 (Fife Road Kingston Store) Limited	0	100	05502598
Marks and Spencer 2005 (Glasgow Sauchiehall Store) Limited	0	100	05502546
Marks and Spencer 2005 (Hedge End Store) Limited	0	100	05502538
Marks and Spencer 2005 (Kensington Store) Limited	0	100	05502478
Marks and Spencer 2005 (Kingston-on-Thames Satellite Store) Limited	0	100	05502523
Marks and Spencer 2005 (Kingston-on-Thames Store) Limited	0	100	05502520
Marks and Spencer 2005 (Parman House Kingston Store) Limited	0	100	05502588
Marks and Spencer 2005 (Pudsey Store) Limited	0	100	05502544
Marks and Spencer 2005 (Warrington Gemini Store) Limited	0	100	05502502
Marks and Spencer Hungary Limited	0	100	08540784
Marks and Spencer Investments	0	100	04903061
Marks and Spencer Property Holdings Limited	0	100	02100781
Ruby Properties (Cumbernauld) Limited	0	100	04922798
Ruby Properties (Hardwick) Limited	0	100	04716018
Ruby Properties (Long Eaton) Limited	0	100	04716031
Ruby Properties (Thorncliffe) Limited	0	100	04716110
Ruby Properties (Tunbridge) Limited	0	100	04716032
Simply Food (Property Investments)	0	100	05502543
Simply Food (Property Ventures) Limited	0	100	02239799

The Company will guarantee the debts and liabilities of the above UK subsidiary undertakings at the balance sheet date of £6.3m in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

(i) All companies registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom, unless otherwise stated.
(ii) In accordance with the articles of association of Marks and Spencer Pension Trust Limited, the holders of B and C Ordinary shares are both directors of that company.
(iii) Marks and Spencer (Initial LP) Limited and Marks and Spencer Pension Trust Limited are the limited partners; Marks and Spencer plc is the General Partner.

C6 INVESTMENTS CONTINUED

B Related undertakings continued
International subsidiary undertakings(i)

Name	Registered Address	Country	Share Class	Proportion of shares held by subsidiary (%)
Marks and Spencer (Australia) Pty Limited	Aurora Place, 88 Phillip Street, Sydney, NSW 2000, Australia	Australia	AUD 2 Ordinary	100
Marks and Spencer GmbH in Liqu. (in liquidation)	Sterngasse 13, Vienna, Austria	Austria	€35,000 Ordinary	100
Marks and Spencer (Belgium) SPRL	4th Floor, 97 Rue Royale, 1000 Brussels, Belgium	Belgium	€1.21 Ordinary	100
Marks & Spencer Canada Incorporated	40 Wellington Row, Saint John NB E2L 4S3, Canada	Canada	CAD 1 Common	100
			CAD NPV	100
			CAD 1 Pref	100
Marks & Spencer Holdings Canada Incorporated	40 Wellington Row, Saint John NB E2L 4S3, Canada	Canada	CAD 1 Common	100
			CAD 1 Preference Class A	100
Marks & Spencer Inc.	40 Wellington Row, Saint John NB E2L 4S3, Canada	Canada	CAD 1 Common	100
Marks and Spencer (Shanghai) Limited	Unit 03-04, 6/F, ECO City 1788, 1788 West Nan Jing Road, Shanghai, China	China	Registered Capital	100
Marks and Spencer Commercial (Shanghai) Ltd	863 Nanjing Road West, Jin An District, Shanghai, China	China	Registered Capital	100
Marks and Spencer Croatia d.o.o. (in liquidation)	Draškovićeva ul. 82, 10000, Zagreb, Croatia	Croatia	HRK Ordinary	100
Marks and Spencer Czech Republic a.s	Praha 4, Michle, Vyskocilova 1481/4, Czech Republic	Czech Republic	CZK 1,000 Ordinary	100
			CZK 100,000 Ordinary	100
			CZK 1,000,000 Ordinary	100
Marks and Spencer Services S.R.O	Vyskocilova 1481/4, 14000 Praha 4, Michle, Czech Republic	Czech Republic	Registered Capital	100
Oü MSF Estonia	Paldiski mnt 102, Tallinn, 13522, Estonia	Estonia	Registered capital	100
Andis SARL	48 Rue de la Chaussée-d'Antin, 75009 Paris, France	France	€1,060 Ordinary	100
Marks & Spencer Marinopoulos Greece SA	33-35 Ermou Street, Athens, Greece	Greece	€3 Ordinary	80
Ignazia Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4JH, Guernsey	Guernsey	£1 Ordinary	99.99
Marks and Spencer (Alderney) Limited	Linwood, Alles es Fees, Alderney	Guernsey	£1 Ordinary	100
Teranis Limited	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4HY, Guernsey	Guernsey	£1 Ordinary	99.99
Marks and Spencer (Asia Pacific) Limited	Suite 1009, 10/F, Tower 6, The Gateway, 9 Canton Road, Kowloon, Hong Kong,	Hong Kong	HKD 1 Ordinary	100
Marks and Spencer (Hong Kong) Investments Limited	Suite 1009, 10/F, Tower 6, The Gateway, 9 Canton Road, Kowloon, Hong Kong	Hong Kong	HKD1 Ordinary	100
Marks and Spencer (Hungary) Kft	Fehérvári út 50-52, 1117 Budapest, Hungary	Hungary	HUF280,500,000 Quota	100
Marks and Spencer (India) pvt Limited	Tower C, RMZ Millenia, 4th Floor, Lake Wing, #1 Murphy Road, Bangalore, 560008, India	India	INR10 Ordinary	100
Marks and Spencer Reliance India Pvt Ltd	4th Floor, Court House, Lokmanya Tilak Marg, Dhobi Talao, Mumbai, 400 002, India	India	INR 10 Class A	51
			INR 10 Class B	100
			INR 10 Class C(ii)	0
Supreme Tradelinks Private Limited	First Floor, Anand Bhawan, Sansar Chandra Road, Jaipur, 302 001, India	India	INR 10 Ordinary	100
Aprell Limited	24-29 Mary Street, Dublin 1, Ireland	Ireland	€1.25 Ordinary	100
Marks and Spencer (Ireland) Limited	24-27 Mary Street, Dublin 1, Ireland	Ireland	€1.25 Ordinary	100
Marks and Spencer Pension Trust (Ireland) Limited(iii)	24-27 Mary Street, Dublin 1, Ireland	Ireland	Limited by guarantee	100
Marks and Spencer (Israel) Limited	31 Ahad Haam Street, TEL AVIV 65202, Israel	Israel	NIS Ordinary	100
Per Una Italia SRL (in liquidation)	via Giotto 25 - 59100 Prato, Italy	Italy	€ Quota	100
Marks and Spencer (Jersey) Limited	7-11 Britannia Place, Bath Street, St Helier	Jersey	£1 Ordinary	100
MSF Latvia SIA (in liquidation)	Ieriku iela 3, Riga, LV-1084, Latvia	Latvia	€142 Ordinary	100
UAB MSF Lithuania	Gedimino pr. 20, Vilnius, Lithuania	Lithuania	€28.96 Ordinary	100
Marks and Spencer Montenegro DOO Podgorica (under liquidation)	C/O Eurofast Global Limited, 112 Bul Svetog Petra Cetinjskog, 8100 Podgorica, Montenegro	Montenegro	€ Ordinary	100
M & S Mode International B.V.	Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer (Nederland) B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€450 Ordinary	100
Marks and Spencer BV	Prins Bernhardplein, 1097 JB, Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer Nederland (Retail) B.V.	Muntplein 10C, 1012 WR Amsterdam, Netherlands	Netherlands	€100.00 Ordinary	100
Marks and Spencer Stores B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€450 Ordinary	100
Marks and Spencer Poland Sp z o.o.	Ul. Marszałkowska 104/122, 00-017 Warszawa, Poland	Poland	PLN 50.00 Ordinary	100
Marks & Spencer (Portugal) Lda.	Avenida da Liberdade 249, 1250-143, Lisbon, Portugal	Portugal	€1 Ordinary	100
Marks and Spencer Romania SA	No. 262 Timisoara Boulevard, Anchor Plaza, 3rd Floor premises 3B-1, 6th District, Bucharest, Romania	Romania	RON 18.30 Ordinary	100
Marks and Spencer Doo Beograd (in liquidation)	Patrisa Lumumbe no. 70, 11000 Belgrade	Serbia	RSD Quotas	100
Marks and Spencer (Singapore) Investments Pte. Ltd.	77 Robinson Road #13-00 Robinson 77 Singapore 068896 Singapore	Singapore	No Par Value Ordinary	No Par Value Ordinary
MSF Slovakia S.R.O	Ivanská cesta 16, Bratislava, 821 04, Slovakia	Slovakia	Registered capital	100
Marks and Spencer (SA) (Pty) Limited	Woolworths House, 93 Longmarket Street, Cape Town 8001, South Africa	South Africa	ZAR 2 Ordinary	100
M&S (Spain) S.L.	Calle Fuencarral No. 119, 28010, Madrid, Spain	Spain	€1 Ordinary	100
Marks and Spencer (Thailand) Limited	1011 Supalai Grand Tower, 24th Floor, Rama 3 Road, Kwaeng Chongnonsi, Khet Yannawa, Bangkok 10120, Thailand	Thailand	THB 100.00 Ordinary	100
Marks and Spencer Clothing Textile Trading L.L.C	Havalani Karsisi istanbul Dunya Ticaret Merkezi, A3 Blok, Kat:11 Yesilkoy, Bakirkoy, Istanbul, Turkey	Turkey	TRL 25.00 Ordinary	100
Marks & Spencer Services Inc.	2711 Centerville Road, Suite 400, Wilmington DE 19808, United States	United States	USD 1 Common	100
Marks & Spencer Ventures Finance LLC	2711 Centerville Road, Suite 400, Wilmington DE 19808, United States	United States	USD 1 Common	100

NOTE: A number of the companies listed are legacy companies which no longer serve any operational purpose.

(i) The shares of all international subsidiary undertakings are held by companies within the Group other than the Company (Marks and Spencer Group plc).
(ii) INR 10 Class C shares 100% owned by JV partner.
(iii) No share capital as the company is limited by guarantee.

GROUP FINANCIAL RECORD

	2017 52 weeks £m	2016 53 weeks £m	2015 52 weeks £m	2014 52 weeks £m	2013 52 weeks £m
Income statement					
Revenue[1]					
UK	**9,441.7**	9,470.8	9,223.1	9,155.7	8,951.4
International	**1,180.3**	1,084.6	1,088.3	1,154.0	1,075.4
	10,622.0	10,555.4	10,311.4	10,309.7	10,026.8
Operating profit/(loss)[1]					
UK	**327.6**	627.3	640.6	600.3	632.8
International	**(74.4)**	(43.2)	60.7	94.2	120.2
Total operating profit	**253.2**	584.1	701.3	694.5	753.0
Net interest payable	**(106.1)**	(110.6)	(111.8)	(125.8)	(212.9)
Pension finance income	**29.3**	15.3	10.5	11.7	7.1
Profit on ordinary activities before taxation	**176.4**	488.8	600.0	580.4	547.2
Analysed between:					
Profit before tax and adjusted items	**613.8**	689.6	661.2	622.9	648.1
Adjustments to reported profit	**(437.4)**	(200.8)	(61.2)	(42.5)	(100.9)
Income tax expense	**(60.7)**	(84.4)	(118.3)	(74.4)	(102.4)
Profit after taxation	**115.7**	404.4	481.7	506.0	444.8

		2017 52 weeks	2016 53 weeks	2015 52 weeks	2014 52 weeks	2013 52 weeks
Basic earnings per share[1]	Profit after tax/ Weighted average ordinary shares in issue	**7.2p**	24.9p	29.7p	32.5p	28.3p
Adjusted basic earnings per share[1]	Adjusted profit after tax/ Weighted average ordinary shares in issue	**30.4p**	35.0p	33.1p	32.2p	31.9p
Dividend per share declared in respect of the year[3]		**18.7p**	18.7p	18.0p	17.0p	17.0p
Dividend cover	Adjusted basic earnings per share/Dividend per share	**1.6x**	1.9x	1.8x	1.9x	1.9x
Retail fixed charge cover	Operating profit before depreciation and operating lease charges/Fixed charges	**3.4x**	3.7x	3.6x	3.4x	3.5x
Statement of financial position						
Net assets (£m)		**3,150.4**	3,443.4	3,198.8	2,706.7	2,519.5
Net debt[2] (£m)		**1,934.7**	2,138.3	2,223.2	2,463.6	2,614.3
Capital expenditure (£m)		**331.2**	525.1	526.6	710.0	821.3
Stores and space						
UK stores		**979**	914	852	798	766
UK selling space (m sq ft)			17.0	16.8	16.6	16.4
International stores		**454**	468	480	455	418
International selling space (m sq ft)		**5.9**	6.1	6.0	5.8	5.4
Staffing (full-time equivalent)						
UK		**53,562**	52,388	52,247	54,678	51,835
International		**6,202**	6,507	6,849	6,498	5,683

1. Based on continuing operations.
2. Excludes accrued interest.
3. Excludes special dividend.

GLOSSARY

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income Statement Measures			
Like-for-like revenue growth	Movement in revenue per the Income Statement	Sales from non like-for-like stores	The period on period change in revenue (excluding VAT) from stores which have been trading and where there has been no significant change in footage for at least 52 weeks and online sales. The measure is used widely in the retail industry as an indicator of sales performance. It excludes the impact of new stores, closed stores or stores with significant footage change.

	FY 16/17 £m	FY 15/16 £m	%
UK Revenue			
Like-for-like	9,039.2	9,213.0	-1.9%
Net space change	402.5	111.7	
Total	**9,441.7**	**9,324.7**	**1.3%**
Week 53	–	146.1	
Statutory	**9,441.7**	**9,470.8**	**-0.3%**

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
M&S.com revenue/ Online revenue	None	Not applicable	Total revenue through the Group's online platforms. These revenues are reported within the relevant UK and International segment results. The growth in revenues on a year-on-year basis is a good indicator of the performance of the online channel and is a measure used within the Group's incentive plans. Refer to the Remuneration Report for explanation of why this measure is used within incentive plans.
Revenue growth at constant currency	None	Not applicable	The period on period change in revenue retranslating the previous year revenue at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the period-on-period reported results.

	FY 16/17 £m	FY 15/16 £m	%
International Revenue			
At reported currency	1,180.3	1,066.3	10.7%
Impact of FX translation	–	115.2	
At constant currency	1,180.3	1,181.5	-0.1%

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Gross margin	Gross profit margin[1]	Certain downstream logistics costs (see Note 2)	Where referred to throughout the Annual Report, gross margin is calculated as gross profit before adjusted items on a management basis divided by revenue. The gross profit used in this calculation is based on an internal measure of margin rather than the statutory margin, which excludes certain downstream logistics costs. This is a key internal management metric for assessing category performance.
Adjusted items	None	Not applicable	Those items which the Group excludes from its adjusted profit metrics in order to present a further measure of the Group's performance. Each of these items (costs or incomes) is considered to be significant in nature and/or value. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across periods because it is consistent with how the business performance is reported to the Board and the Operating Committee.
EBIT before adjusted items	EBIT[2]	Adjusted items (See Note 5)	Calculated as profit before the impact of adjusted items, net finance costs and tax. This measure is used in calculating the Return on Capital Employed for the Group.
Profit before tax and adjusted items	Profit before tax	Adjusted items (see Note 5)	Profit before the impact of adjusted items and tax. The Group considers this to be an important measure of Group performance and is consistent with how the business performance is reported to and assessed by the Board and the Operating Committee. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for explanation of why this measure is used within incentive plans.
Adjusted earnings per share	Earnings per share	Adjusted items (see Note 5)	Profit after tax attributable to owners of the parent and before the impact of adjusted items, divided by the weighted average number of ordinary shares in issue during the financial year. This is a measure used within the Group's incentive plans. Refer to the Remuneration Report for explanation of why this measure is used within incentive plans.

GLOSSARY CONTINUED

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income Statement Measures continued			
Adjusted diluted earnings per share	Diluted earnings per share	Adjusted items (See Note 5)	Profit after tax attributable to owners of the parent and before the impact of adjusted items, divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of any potentially dilutive options.
Effective tax rate before adjusted items	Effective tax rate	Adjusted items and their tax impact (See Note 5)	Total income tax charge for the Group excluding the tax impact of adjusted items divided by the profit before tax and adjusted items. This measure is an indicator of the ongoing tax rate for the Group.
52-week period ended 26 March 2016	53-week period ended 2 April 2016	Results for the 53rd week in the statutory reporting period ended 2 April 2016	Every 6 years an additional week is included within the statutory period to ensure that the year end date stays in line with the end of March. The prior year statutory financial measures were based on such a 53 week reporting period. In order to provide a meaningful comparison with this year's 52 week period, all financial movements in commentary relative to the prior year are provided on a 52 week basis and exclude the 53rd week, unless otherwise noted. The Group considers that presentation of comparatives on this basis enables stakeholders to more appropriately compare the performance of the business year on year. The 52 week period for the prior year has been used for management incentive purposes.
Balance Sheet Measures			
Net debt	None	Reconciliation of net debt (see note 27)	Net debt comprises total borrowings (bank, bonds and finance lease liabilities net of accrued interest), net derivative financial instruments that hedge the borrowings and the Scottish Limited Partnership liability to the UK pension scheme less cash, cash equivalents and unlisted and short-term investments. This measure is a good indication of the strength of the Group's balance sheet position and is widely used by credit rating agencies.
Capital employed	Net assets	Refer to definition	The net total of assets and liabilities as reported in the annual financial statement excluding assets and liabilities in relation to investment property, net retirement benefit position, derivatives, current and deferred tax liabilities, Scottish Limited Partnership liability, non-current borrowings and provisions in respect of adjusted items. This measure is used in the calculation of Return on Capital Employed.
Cash Flow Measures			
Free cash flow	Net cash inflow from operating activities	See Financial Review	The cash generated from the Group's operating activities less capital expenditure and interest paid. This measure shows the cash retained by the Group in the year.
Free cash flow pre-shareholder returns	Net cash inflow from operating activities	See Financial Review	Calculated as the cash generated from the Group's operating activities less capital expenditure and interest paid excluding returns to shareholders (dividends and share buyback). This measure shows the cash generated by the Group during the year that is available for returning to shareholders and is used within the Group's incentive plans.
Other Measures			
Capital expenditure	None	Refer to definition	Calculated as the purchase of property, plant and equipment, investment property and intangible assets during the year less proceeds of asset disposals excluding any assets acquired as part of a business combination.
Return on Capital Employed	None	Not applicable	Calculated as EBIT before adjusted items divided by the average of opening and closing capital employed. This measure is used within the Group's incentive plans. Refer to the Remuneration Report for explanation of why this measure is used within incentive plans.

1. Gross profit margin is not defined within IFRS but is a widely accepted profit measure being derived from revenue less cost of sales divided by revenue.
2. EBIT is not defined within IFRS but is a widely accepted profit measure being earnings before interest and tax.

SHAREHOLDER INFORMATION

ANALYSIS OF SHARE REGISTER

Ordinary shares

As at 1 April 2017, the Company had 166,083 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 actual number of shares held privately is estimated to be around 30% higher than indicated.

Range of shareholding	Number of holdings	%	Balance as at 1 April 2017	%
1 – 500	87,113	52.45	16,514,336	1.02
501 – 1,000	31,960	19.24	23,920,896	1.47
1,001 – 2,000	24,254	14.60	34,835,196	2.14
2,001 – 5,000	16,132	9.71	49,329,942	3.04
5,001 – 10,000	4,119	2.48	28,449,793	1.75
10,001 – 100,000	1,941	1.17	45,369,711	2.79
100,001 – 1,000,000	407	0.25	141,605,826	8.72
1,000,001 – Highest	157	0.10	1,284,702,146	79.07
Total	**166,083**	**100.00**	**1,624,727,846**	**100.00**

Category of shareholder	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of issued share capital
Private	161,053	96.97	185,490,855	11.42
Institutional and corporate	5,030	3.03	1,439,236,991	88.58
Total	**166,083**	**100.00**	**1,624,727,846**	**100.00**

2017/18 FINANCIAL CALENDAR AND KEY DATES

1 June 2017	Ex-dividend date – Final dividend
2 June 2017	Record date to be eligible for the final dividend
11 July 2017	Results – Quarter 1 Trading update†
11 July 2017	Annual General Meeting (11am)
14 July 2017	Final dividend payment date for the year to 1 April 2017
8 November 2017*	Results – Half Year†
16 November 2017*	Ex-dividend date – Interim dividend
17 November 2017*	Record date to be eligible for the interim dividend
January 2018*	Results – Quarter 3 Trading update†
12 January 2018*	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.
- → 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.

For more information about the services offered by Shareview and to register, please visit **shareview.co.uk**.

DIVIDENDS

Dividends are paid in January and July each year, subject to the relevant Board and shareholder approvals. These can be paid quickly and securely directly into your bank account. You may also choose to have your dividends invested in further M&S shares through our dividend reinvestment plan (DRIP) (terms and conditions apply). To arrange either of these options, simply call Equiniti on the numbers provided on the following page. Alternatively, you can manage your dividend payment choices by registering with **shareview.co.uk**.

SHAREHOLDER INFORMATION CONTINUED

ANNUAL GENERAL MEETING 2017

This year's AGM will be held at Wembley Stadium, Wembley, London HA9 0WS on Tuesday 11 July 2017. The meeting will start at 11am and registration will be open from 9.30am.

DUPLICATE DOCUMENTS

Many shareholders have more than one account on the share register and receive duplicate documentation from us as a result. If you fall into this group, please contact Equiniti to combine your accounts.

CORPORATE WEBSITE

You can access the corporate website at **marksandspencer.com/thecompany**. 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 its shares. Through the website you can also register to receive news alerts by email; simply click on 'alerts' in the top right corner and enter your details.

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.

CHANGING YOUR ADDRESS

You should inform Equiniti of your new address as soon as possible to avoid missing important correspondence relating to your shareholding. If you hold 2,500 shares or fewer and reside in the UK, this can be done quickly over the telephone. Holdings of more than 2,500 shares will require a written instruction quoting your full name, 11-digit shareholder reference number (if known) and both your previous and new addresses.

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. 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 (CGT), 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 that the base cost for CGT purposes was 372.35p (81.43%) for an ordinary share and 68.75p (18.75%) for a B share.

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.

AMERICAN DEPOSITARY RECEIPTS (ADRS)

The Company has a sponsored Level 1 ADR programme with Deutsche Bank. This enables US investors to purchase Marks & Spencer American Depositary 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@astfinancial.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

USEFUL CONTACTS

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Waterside House
35 North Wharf Road
London W2 1NW
United Kingdom
Telephone: +44 (0)20 7935 4422
Registered in England and Wales
(no. 4256886)

General queries
Customer queries: 0345 302 1234
Alternatively, email us at
chairman@marks-and-spencer.com.

Registrar/Shareholder queries
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
United Kingdom
Telephone: 0345 609 0810
If calling from outside the UK:
+44 (0) 121 415 7071
Online: **help.shareview.co.uk** (from here, you will be able to email Equiniti securely with your enquiry).

Students
Please note, students are advised to source information from our website.

Additional documents
An interactive version of our 2016/17 Annual Report is available online at **marksandspencer.com/annualreport2017**.

Additionally, both the Annual Report and Strategic Report are available for download in pdf format at **marksandspencer.com/thecompany**. Alternatively, call 0800 591 697.

Group Secretary and Head of Corporate Governance
Amanda Mellor

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 the shareholder information pages of our corporate website. We also encourage shareholders to read the FCA's guidance on how to avoid scams at **fca.org.uk/consumers/scams**. An overview of current common scams can be found on the Action Fraud website **actionfraud.police.uk**.

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M&S

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