TRANSFORMATION UNDERWAY

ANNUAL REPORT
& FINANCIAL
STATEMENTS 2018

+

NOTICE OF
ANNUAL GENERAL
MEETING 2018

M&S

EST. 1884

AT A GLANCE

M&S is a unique retailer with a great heritage of brand values and customers who want to see it succeed again. We operate Food, Clothing & Home and other retail businesses using the M&S own-brand model, focused on delivering great value for money. Although primarily based in the UK, we sell into 57 countries from 1,463 stores and 20 websites around the world. We employ 81,000 colleagues serving about 32 million customers. We are committed to a programme of transformation to ensure that once again M&S can fulfil the potential of its brand and deliver long-term sustainable, profitable growth to investors, colleagues and the communities in which we operate.

FINANCIAL OVERVIEW

GROUP REVENUE	£10.7bn	+0.7%
GROUP PROFIT BEFORE TAX	£66.8m	-62.1%
ADJUSTED PROFIT BEFORE TAX	£580.9m	-5.4%
TOTAL DIVIDEND	18.7p	Level
NET DEBT	£1.83bn	-5.5%
BASIC EARNINGS PER SHARE	1.6p	-77.8%
ADJUSTED EARNINGS PER SHARE	27.8p	-8.6%

STRATEGIC REPORT

GOVERNANCE

DIRECTORS' REPORT

FINANCIAL STATEMENTS

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

ALTERNATIVE PERFORMANCE MEASURES

The 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. We have included a glossary on pages 120-121 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.

DIGITAL FIRST

M&S is transforming

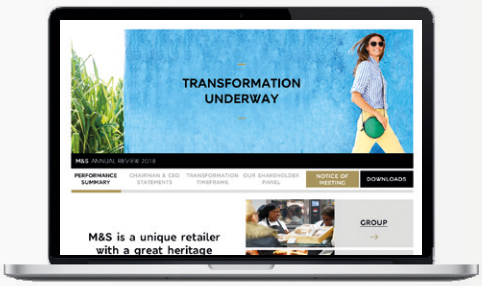
In a competitive and rapidly evolving market, accelerated change is the only option. We're becoming more relevant, more often to our existing customers and appealing to new ones, especially larger households and busy families.

And the way we communicate is transforming too. This report is different. We've cut down on the superfluous content so that we can cut down on the amount of paper we use. It also includes the Notice of Meeting for our 2018 AGM which you will find at the back of the report.

Like in every area of our business, we are thinking Digital First. So, there is more detail and insight available online via **marksandspencer.com/annualreport2018**

WHY GO DIGITAL?

- ☑ **Access to more detailed and interactive content**
- ☑ **The money saved on printing and postage will help lower our costs**
- ☑ **Reduces our carbon footprint and saves paper**



DIGITAL FIRST COMMUNITY

Join our Digital First community and sign up for online communications only, in time for next year's report. It's much less fuss, much more interactive and you'll be helping M&S to reduce its impact on our environment.

To register, visit **shareview.co.uk**, a secure platform provided by our Registrar, Equiniti. From the home page, simply click 'Portfolio' followed by 'Open Portfolio Account' and follow the on-screen instructions. You will need your shareholder reference number to register.

STRATEGIC REPORT

CHAIRMAN'S STATEMENT

"The genesis of any turnaround starts with the recognition of the 'unvarnished truth'."

ARCHIE NORMAN CHAIRMAN

INTERIM Paid on 12 January 2018

6.8p

FINAL To be paid on 13 July 2018

11.9p

TOTAL DIVIDEND FOR 2017/18

18.7p

In September 2017, I took over as Chairman of Marks & Spencer. I did so in the belief that the right actions and a strong management team can revive again one of the UK's most special brands – a business much loved by its employees, customers, and suppliers.

Since that time, I have had an opportunity to meet with many colleagues in the business and examine the challenges we face from the inside. There is no doubt in my mind that we face formidable headwinds and transformational changes are needed. The continued migration of clothing and home online, the further development of global competition, the growth of home delivery in food and the march of the discounters all amount to threats that are eroding our business and market position. These, together with a challenging UK consumer market, mean that we have a burning platform. Accelerated change is the only option.

These threats are not new but the tide is running more strongly against us now than at any previous time. And I am very conscious that previous generations of highly capable managers and boards have come and gone without arresting the underlying drift in competitiveness. Our failure to adapt has not therefore been a result of weakness in strategic thinking, nor a lack of talented leadership, nor of capital expenditure. Behind most underperforming businesses there sits organisational failure and culture that has proved resistant to change. Our case is no exception. That is not to say we do not have many great and passionate colleagues. We owe it to them to make change an imperative, to simplify the culture, and create a faster, lower cost, more commercial business.

The genesis of any turnaround starts with the recognition of the 'unvarnished truth': the ability of the management to set corporate vanity on one side and communicate the urgency of change and the true state of the business internally and externally. In our case, store colleagues on the front line feel the pressures of trading every week. To them, and indeed many shareholders, the hard facts are no surprise. Indeed, it comes as a relief to hear the leadership talk about the reality and invite all colleagues to climb on board with a far-reaching programme of change.

For this reason, at the time of our Half Year Results in November, Steve Rowe set out his diagnosis of our problems and announced the beginning of a five-year transformation programme, 'Making M&S Special Again.' In this Annual Report we set out in greater detail the composition of that programme. The first phase is about restoring the basics, getting the organisational structure and infrastructure of the business fit for the future.

This is vital because despite years of high spending, the shape of the business is out of date and much of our infrastructure is inefficient. For instance, while competitors have modernised their store estate, M&S has been slow to close stores and renew them. Our supply chains in both Clothing & Home and in Food require significant re-engineering. In fast-moving fashion this means we are slower than most of our major competitors to market and carry high levels of stock. Although online sales are growing, our online capability is behind the best of our competitors, and our fulfilment centre at Castle Donington has struggled to cope with peak demand. Our technology support is improving as we migrate off legacy systems and an old mainframe. In both main retail businesses, our customer base has narrowed and we have lost share of younger family-age customers.

Although we will present more detail of the transformation strategy over the next 12 months, Steve has already announced the pillars of this first phase. We are well on the way to closing at least 25% of our Clothing & Home space. The website is being improved and we are investing to remedy the problems at Castle Donington and build a single-tier distribution network. We aim to almost double our online share of Clothing & Home sales to over 33%. We have established a technology partnership with TCS to improve our IT base. Teams have been established to address the supply chain issues in both main businesses. We are taking steps to recover our appeal to family-age customers in clothing, reduce the number of product lines and buy more stylish product in greater depth. The expansion in Food space has been slowed while we concentrate on refreshing the format and driving sustainable growth. Our International business has already been rationalised and we are now creating a competitive network of mainly franchise-led businesses in territories where we can grow. These are basic enabling steps which should provide a platform for restoration of growth in later stages.

Alongside this we have announced formative changes in the organisation. M&S has been managed as a single business led by functional directors. However, the Food business is very different from Clothing & Home. Our property assets need proactive management and M&S Bank is clearly a very separate entity. Therefore, we are moving from the heavyweight corporate structure to a family of parallel businesses, each with shared brand values but each led by its own integrated management team. Jill McDonald has already started to build a top calibre team in Clothing & Home and Stuart Machin joined to lead the Food business in April. Sacha Berendji will lead the development of a property strategy alongside his other responsibilities.

Supporting the businesses will sit a streamlined corporate layer including a strong digital and data analytics capability. At the senior level we are glad that Humphrey Singer is joining us as CFO, bringing his experience of the transformation of Dixons Carphone. Together with Steve Rowe he will oversee a strong but lean corporate level team. This new organisation structure should help break down some of the historic organisational silos and create a faster, more commercial and accountable M&S.

These changes are urgent because the world is changing around us. I am acutely aware that shareholders at M&S have heard about similar programmes before. Some made progress, others proved to be false dawns. The chill winds of competition in all our markets are now such that time is running out and we cannot afford to fail.

In tackling the problems, we still have several important advantages. First, we have a wonderful brand which most people in the UK still hold in great affection. Second, we have great operators in the stores and many colleagues with extraordinary passion for the business. Third, our technical skills in both clothing and food and our understanding of quality, ingredients, sourcing, size and fit remain outstanding. So, we have a lot on which to build.

The purpose of the transformation plan is to restore the business to sustainable, profitable growth. In doing so, the Board remains committed to maintaining the right balance between investment in the business, dividends for shareholders and balance sheet strength. Given the continued net cash generation by the business and our strong belief in the potential of the transformation, we intend to maintain the dividend at its current level. M&S has a history of large-scale capital spending, much of which has not generated hoped-for returns. In the new organisation we will continue to be frugal in our allocation of capital and assess investment against strict returns criteria.

I have a large number of board-level colleagues to thank. My predecessor, Robert Swannell, set the platform for the current changes and established strong corporate governance routines. Helen Weir as CFO brought to the business much intellectual challenge and financial discipline. Patrick Bousquet-Chavanne has overseen some extraordinary marketing campaigns over the last six years. Miranda Curtis played an important and challenging role as a non-executive director. We thank them all for their contribution.

As we enter a new era with a new management team and new urgent perspective on the need to change, we need a strong board committed to the road ahead. I am delighted therefore that Katie Bickerstaffe and Pip McCrostie will be joining shortly, subject to their election by our shareholders at the AGM on 10 July.

Finally, at a time of declining profit, it is the colleagues on the ground who bear much of the brunt of change. My thanks go to all of them for their hard work and also to our longstanding shareholders for their patient support.

ARCHIE NORMAN CHAIRMAN

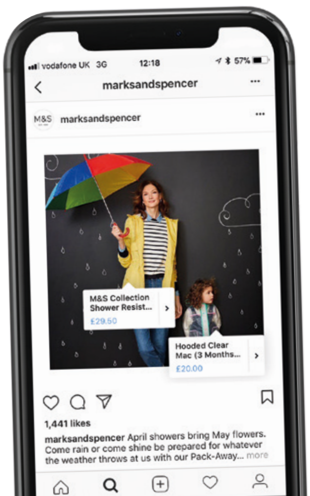
"We owe it to our people to make change an imperative, and create a faster, lower cost, more commercial business."

STRATEGIC REPORT

CHIEF EXECUTIVE'S STATEMENT

"M&S needs to change and change fast. We are now in the first phase of our transformation, restoring the basics so that we can deliver sustainable, profitable growth to investors, colleagues and the communities in which we operate."

STEVE ROWE CHIEF EXECUTIVE



M&S needs to change and change fast. We have addressed a number of immediate issues and are now embarking on the task of transforming the business to arrest the decline and restart long-term growth.

In November, I set out our five-year transformation plan to make M&S special again. We will execute this plan, flexing and adapting as we go, at pace. A few miles into our journey, I can see how much we need to do and I am determined that this time M&S will take the hard steps to make our business a very different one in five years' time.

Change comes with short term pain. Group profit was heavily impacted by a large number of charges, most notably those relating to the acceleration of our UK store closure programme. Profit before adjusting items benefited from a substantial improvement in International profit, but this was insufficient to offset the continuing pressures in our UK businesses.

RESTORING THE BASICS IN CLOTHING & HOME AND FOOD

For M&S to become more relevant, more often to more British households, we have to reshape our Clothing & Home and Food businesses. This transformation starts with eliminating silos and creating accountable businesses. To lead this change, we appointed Jill McDonald who has strengthened the team in Clothing & Home, and Stuart Machin who joined us in April this year to transform our Food business.

In Clothing & Home, we continued our focus on full-price sales and removed promotions and the number of clearance sales. Sales declined as a result, but for the first time in five years we grew the number of customers shopping our clothing. Our ambition is to be the UK's essential clothing retailer – famous for quality products that offer contemporary wearable style, at great prices. We will continue to sharpen our ranges, by providing better choices with fewer options and delivering more wardrobe essentials at the right price.

In Food, our focus on being 'special and different' saw us perform well at Christmas and Easter but our performance was not good enough throughout the year. We must broaden our appeal – getting our pricing and product ranges right – so that we can retain our core customers and attract busy families who want great tasting, quality food at outstanding value.

BECOMING A DIGITAL FIRST RETAILER

If we are to deliver major cultural change at M&S we have to be a Digital First business. This change in approach was evident in the partnership we announced with TCS during the year and our migration off the old mainframe system. Going forward we will develop new partnerships which aim to put digital innovation at the forefront of our thinking.

Our store teams have cut costs and improved customer service through the roll-out of handheld devices in our stores, reducing time spent on stock management and enabling quicker response to customer queries. In our offices we are introducing a Smarter Working approach, reducing the amount of expensive office space required in central London by half and working better and closer together.

IMPROVING OUR CHANNELS TO CUSTOMERS

We accelerated our plan to operate from fewer, larger, more inspirational Clothing & Home stores with 32 stores either closed or proposed for closure out of a planned reduction of over 100. An encouraging number of customers have moved their shopping to nearby stores. As we reposition our Food offer to deliver sustainable growth, we also slowed our Simply Food openings to focus only on the sites with the best returns.

Growth at M&S.com was behind the market as we focused on full-price sales in a highly promotional market. We remain behind the market in several key areas: our download speeds, though recently improved, are still slower; we are not yet mobile first; and we have an average search experience.

We will deliver one-third of our Clothing & Home sales online within five years to prevent further erosion of our market share and to reflect the way that customers' shopping habits are changing.

We delivered a sharp improvement in profits in our International business, completing the planned exit of loss-making markets, on time and under budget, and selling our Hong Kong business to a franchise partner. We are focused on a franchise model and developing our offer to ensure better availability and sharper prices. We were pleased to deliver a return to profitable growth.

"By recognising the challenges we face and focusing on our transformation we can make M&S special again."

SUPPLY CHAIN FIT FOR PURPOSE

In order to be a faster and more commercial business we must improve our supply chain, which is slow, inefficient and expensive. In Clothing & Home, the announcement of our investment in a new distribution centre at Welham Green is a step towards delivering a single-tier network of national distribution centres. This will enable us to reduce stock holding points which make our store deliveries slow and mean we carry many weeks' more stock than our competitors.

Our intention to be one-third online means investing in e-commerce fulfilment. In the near term this means improving our operations at Castle Donington so that we serve customers better at busy times.

In Food we have a high-cost distribution model which limits availability and increases waste. We are rolling out operational improvements across our stores with the aim of improving stock file accuracy, reducing stock held in the back of our stores and ensuring appropriate deliveries.

LOWER COST RETAILING

During the year, we have undertaken a forensic review of our cost base, with the ambition to reduce it by at least £350m in the medium term. Our initiatives in our stores and our supply chain will deliver a significant proportion of these reductions. The change in our culture and ways of working is also delivering benefits in our offices and our cost of goods through fewer central London offices, changes to our packaging specifications and the way we work with our suppliers. This is enabling us to improve our value proposition in Food and to reduce costs for the business as whole.

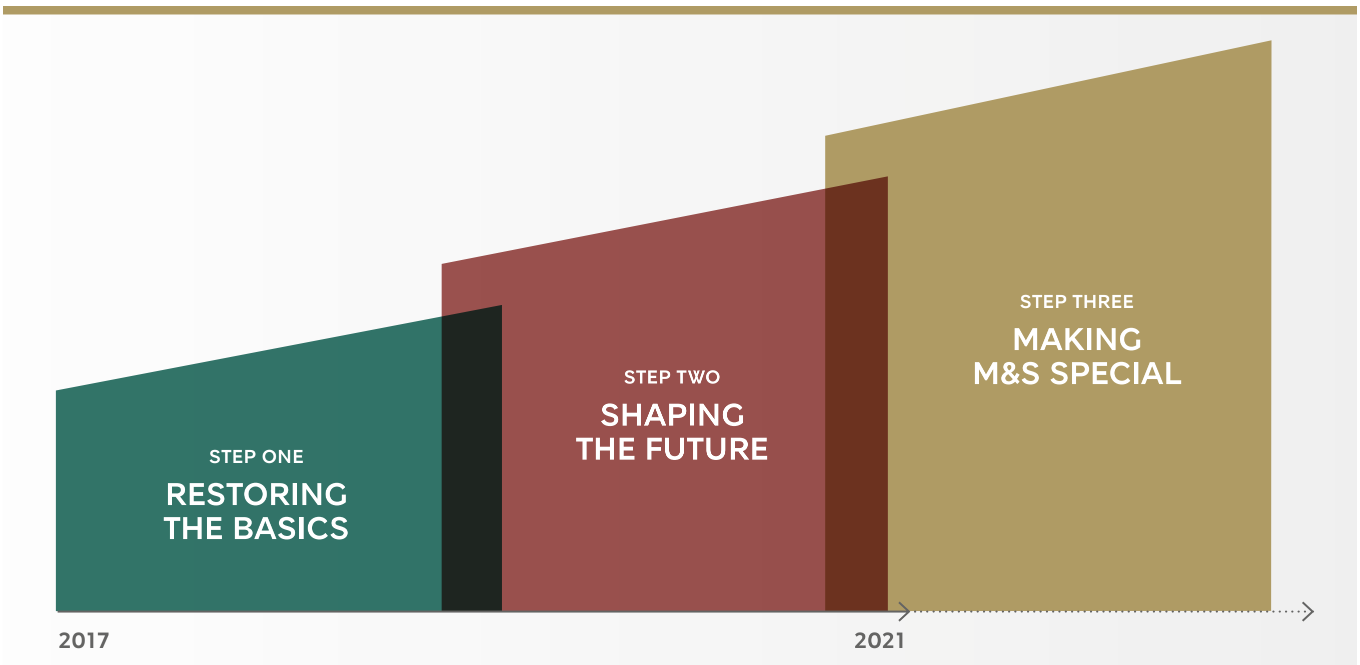
LOOKING AHEAD

We have worked hard to put out the fires in our business over the past couple of years and are now in the first phase of our transformation plan, restoring the basics so that we can deliver sustainable, profitable growth to investors, colleagues and the communities in which we operate.

I would like to thank all of my colleagues for their hard work and dedication. We have great people at M&S and we want to tap into their loyalty and passion for the brand to help drive transformation. We're doing this both externally through better customer engagement, like our extremely popular 'My M&S favourite' campaign, and internally through our new 'Suggest to Steve' scheme that allows colleagues right across the business to share their ideas on how we can improve. By working together, I am optimistic that by recognising the challenges we face and focusing on our clear roadmap for transformation we can make M&S special again.

STEVE ROWE CHIEF EXECUTIVE

TRANSFORMATION TIMEFRAME



PERFORMANCE REVIEW

FOOD

"Beginning the turnaround in Food"

REVENUE +3.9%	LIKE-FOR-LIKE SALES	CONTRIBUTION TO UK REVENUE	SIMPLY FOOD STORES
£5.9bn	-0.3%	61%	696

FACING FACTS

It has been a tough year in Food with underperformance against the market. The origins of this poor performance however are not recent. Our food remains unique and customers still rate us as their favourite supermarket. But over some years, the range has gradually drifted towards becoming more premium and we have lost some of our appeal to broader family-age shoppers. This problem has been compounded by the rising intensity of competition from the discounters at one end and supermarkets at the other, both seeking to emulate our success by copying our fresh product ranges and innovation. This problem is further compounded by high operating costs, high waste and markdowns, and below industry average availability. This, together with rising rent and wage costs, has eroded profit so that urgent action is now needed.

WHAT'S HAPPENING

We have already taken initial steps to arrest the decline and restore like-for-like growth. The rapid roll out of new owned space has now been substantially slowed. We have made selected investment in prices to restore value for money. For instance, we reduced prices on eggs by 18% and saw sales rise by 43%. We have started to rationalise our promotions so as to avoid losing money and obliging customers to spend more to obtain good value. With the arrival of a new marketing team, we are starting to communicate better our unique product credentials in freshness and traceability. Our food innovation pipeline has been re-orientated towards more mainstream, popular family products.

A project team, with outside help, has been set up to address the problems in our supply chain. We believe that significant improvement in availability and waste can be achieved without restructuring the outdated network of distribution centres and initial results are encouraging.

WHAT'S NEXT

With the arrival of Stuart Machin as Managing Director and the reorganisation of brand marketing, we are establishing a stronger, faster moving management team committed to restoring the business to like-for-like sales growth. This firstly means re-establishing our value for money credentials. M&S food should always be great value for quality, freshness, taste and ingredients. Where it does cost a little more, it still saves customers' time and money in the form of less waste or surplus ingredients. Where we run promotions, they should be with a reason, helpful to customers and profitable for our suppliers. Trust in product and value is central to our brand.

M&S has always been famous for our innovation, and our food sourcing and technical skills are industry leading. Our intention is to accelerate the innovation pipeline but focus more strongly on high volume, popular family product. Gourmet and treats will always have a role in our range, but they should not be the range. Even today, our food freshness and authenticity is under-communicated, and our marketing needs to express the extraordinary lengths to which we go to source the best product.

Finally, we are now embarking on a programme to look again at our formats. Much of our profit is made in the larger stores which carry the full M&S range.

UK FOOD MARKETPLACE

The UK food market is undergoing an extraordinary period of change. Although there have been some signs of growth, most of this has been driven by inflation. The discount sector will inevitably continue to grow, probably to 15% or more of the market. Home delivery and online, where we have little presence, are also growing at about 1% of the market a year by 2022. And in an effort to support margin, the mainstream players are seeking to match M&S in the quality end of the market. Therefore, the competitive pressures on our business remain intense and we do not expect this to change in the year ahead. Consumer budgets remain tight and the business, with our fresh emphasis, could also face complications from Brexit and any border friction for food products.

A SLICE OF DETROIT FOR BRITISH FAMILIES

INSIGHT Customers told us they want a deeper, more nourishing pizza without skimping on the fillings, in larger pack sizes that can feed a family.

RESPONSE In September, we launched six new Deep & Loaded Pizzas inspired by the famous pizzas of Detroit. From the Whole Hog, with smoky sausage, spicy pulled pork and barbecued burnt ends, to the Meatball Marinara, topped with mini meatballs and sautéed onions, these deep pizzas priced at £6 are perfect for families to share – we sold 1.2m Detroit inspired pizzas in the year.

PERFORMANCE REVIEW

CLOTHING & HOME

"Restoring value and style in Clothing & Home"

REVENUE -1.4%	LIKE-FOR-LIKE SALES	CONTRIBUTION TO UK REVENUE	CLOTHING & HOME SPACE -1.3%
£3.7bn	-1.9%	39%	11.1m sq ft

FACING FACTS

Clothing & Home revenues were down although the business successfully recovered margin by improving the percentage of full-price sales and continuing to drive its successful direct sourcing programme.

Over many years, M&S has lost position in the market, as, despite our strong, latent brand credentials, our reputation for fashion and style has been eroded. New global competitors have grown market share and far outweigh M&S in sourcing scale. Our online business is well behind market leaders accounting for only 18.5% share of sales. The growth of new 'pure play' online competitors such as Amazon and ASOS has highlighted the marked weakness in our online capability. In platform technology we are hampered by the lack of a 'mobile first' format, a search experience that's average, and slow download speeds. The inadequacy of our logistics means we are unable to fulfil our delivery promises to customers at peak times. And, in our traditional 'store' channel, M&S has not closed and upgraded store locations in line with a changing high street.

As a result, although we retain a loyal customer base and very strong positions in some markets, our customer base has narrowed.

Against this context, the infrastructure supporting the Clothing & Home business needs substantial improvement. We operate an outdated 'factory to customer' supply chain which means we are slow to market, carry too much stock and cannot replenish fast moving lines. The very wide ranges result in slow moving stock that has to be transported and filled as singles, creating extra handling costs. The historic M&S bias towards high volume popular lines and great value has diminished as successive generations of buyers have bought 'flat' instead of backing winners.

Nevertheless, the clothing business retains great technical skills and customer understanding; a strong modern global sourcing operation and 'affection' for the brand remains strong. There is much on which to build.

WHAT'S HAPPENING

Jill McDonald joined as our new Managing Director of Clothing & Home in October. She has already announced a new leadership team including heads of Womenswear, Menswear and Home, alongside a new Supply Chain Director, Marketing Director, Online Director and other important changes.

Under this new team the business has begun to face into the challenges. Already, new range direction has been set to broaden our appeal to family-age customers. Initial steps have been taken to sharpen our value credentials with further reduction in promotions and investment in lower 'first price'. Marketing tone of voice has shifted with the new 'Love it for Less' campaign. For instance, highlighting our pure cotton tapered chinos priced at £19.50, available in a choice of ten colours.

Good progress is being made in the closure of ageing stores and a comprehensive programme has been put in hand to improve the basic performance of our online website, search and checkout capability. On supply chain, an 'end to end' programme taskforce is now in step towards a 'single-tier' distribution network so that we no longer carry warehouse space whose main role is just to store stock. We are also closing centres at Hardwick and Neasden. At our Castle Donington online fulfilment centre we are investing to 'debottleneck' the facility to increase peak capacity.

WHAT'S NEXT

At heart, our recovery in Clothing & Home depends on the restoration of our style credentials and broadening our appeal to a younger family-age customer. Of course, this means creating a top buying and design team making great product decisions. Doing so will require important changes to the buying process and structure of the range.

M&S retains market-leading positions in core categories such as lingerie, denim, business shirts, suits and Back to School. These already appeal to a broader, often younger customer base. Our intention is to build on these positions. The strength of our brand should be providing great value choices for stylish wardrobe essentials, the simple wearable classics that everyone needs to have. Our strength is to provide great value for people at a stage in life where they are prepared to pay a bit more for style and quality and move beyond the 'throwaway' culture.

To do this, we will embark on a restructure of our ranges to buy deeper with fewer slow-moving lines, including a further reduction of over 10% in the year ahead. We will use our global sourcing strength to restore more strongly our value credentials and we will review the role of our sub-brands, such as per una, some of which have lost their identity in recent years.

As our supply chain reforms start to impact, our ambition is to substantially reduce working capital and stock levels, reducing store labour costs and accelerating speed to market. In time, we expect to be able to replenish in season our fastest moving lines, improving availability and reducing markdown.

We have set a target of achieving one-third of our sales online, which means growing double digits each year. Once we have fixed the basic issues in fulfilment and website performance, there is enormous scope for developing the M&S brand and product experience online in the UK and potentially abroad.

UK CLOTHING & HOME MARKETPLACE

The clothing market declined by 1.5% (KantarWorldpanel, 52 w/e 9 April 2018), with a more challenging trend in the second half of the year. The Clothing & Home markets were impacted by three long-term trends which are likely to continue for at least the next two to three years. Firstly, the migration to online; the UK clothing market is about 25% online today and we expect it to grow to about 40% online. Secondly, the development of price-led discounters with the continued growth of Primark, but also the major grocers in clothing. And thirdly, the strength of global scale competitors such as Inditex, H&M and Uniqlo.

MADE TO FIT AND FLATTER

INSIGHT Customers told us they wanted a dedicated range to fit and flatter their curves.

RESPONSE In January, we launched our new Curve collection, offering stylish clothing to our plus-size customers. We consulted with more than 2,000 customers as well as leading fashion blogger Danielle Vanier on the range. Curve is available in sizes 18-32 and all the clothes have been designed using a size 24 as the base shape, rather than a size 12 which is used in other collections. We sold 63,000 pieces from the range during the year.

PERFORMANCE REVIEW

CHANNELS TO THE CUSTOMER

UK STORES	M&S.COM SALES	SHOP YOUR WAY SALES	INTERNATIONAL STORES
1,035	+5.2%	64%	428

STORES

FACING FACTS

M&S operates an ageing store estate reflecting the fact that it has been reluctant to close marginally contributing stores over many years. As a result , we carry a long tail of stores, some over 75 years old, which drag down the like-for-like sales performance and are brand damaging in their configuration. Even though some of these stores trade profitably, they will not warrant new investment, not least because the high street and shopping centres are changing fast. In particular, our smaller high street stores lack range authority and some of our larger stores carry too much space. As the market shifts and moves online these problems will become worse unless we move fast.

WHAT'S HAPPENING

We are accelerating our store closure programme which will result in the closure of around a quarter of our 2016 Clothing & Home space. 32 stores have already been closed or been proposed for closure, out of a reduction of over 100. Some of the larger remaining stores are being downsized so we will converge on a more cohesive portfolio. The closure programme is producing good results with significant sales transfer to nearby, more profitable sites. There will be a limited number of new openings of mid-size stores in high potential sites. In Food, we cut back on the opening programme, focusing now only on the largest trading opportunities in sites capable of good volume growth.

WHAT'S NEXT

Once the reshaping of our core store portfolio is well underway, we will need to relook at our formats to adapt them to a rapidly changing shopping environment. Already, we can see relatively low cost opportunities to modernise our stores to drive sales and improve customer experience. For instance, through our Shop Your Way service, 64% of our online sales are picked up in-store yet many of our collection points are inconveniently situated. Our payment and checkout facilities need more modernising and rationalising and a number of services will be brought together. And many of our larger stores have blocked sight lines and are hard for time-pressed customers to navigate. In the year ahead we will explore 'capital lite' options to refresh our existing estate and develop formats for the future.

M&S.COM

FACING FACTS

Our digital capability is behind the best in the market and the state of the art is moving rapidly. Although we have the second largest online Clothing & Home market share in the UK, we are losing share and are behind the best of our competitors. Our download speeds are slower than the best, our search facility is average and our mobile application needs improvement. Castle Donington was built at great expense but is never likely to achieve planned capacity, lacks resilience and cannot currently meet peak demand.

WHAT'S HAPPENING

We have an urgent programme in hand to fix our base platform capability which should see improvements this year in speed and responsiveness. Already, the majority of our orders are collected in-store and we are investing to make this process faster and more convenient, an advantage over our online only competition. Steps are being taken to 'debottleneck' Castle Donington so that it can meet expected peak demand this year and next. And we are extending the cut off time (10.00 pm) for next-day deliveries. Given the need to broaden our appeal to family-age customers, we are extending our presence and reach in social media. In March, we were one of the first to launch on Instagram Shoppable.

WHAT'S NEXT

Given the 8% growth online in the fourth quarter, we believe that if we implement these basic changes and the improvements we plan in range and product, we will see acceleration of growth towards our one-third target. Combined with store closures this will deliver a more profitable and sustainable business.

Our ambition is also to become a truly digital business, not only competitive online but adept at using artificial intelligence to better interact with customers and develop a more personalised relationship. Given M&S's skills in style and fit and our expertise in fabric we hope to develop innovative ways of helping customers to gain inspiration online and find the right product for their look. Try Tuesday, our online inspiration service, already has 160,000 customers signed up, of which 62% say they have bought something as a result.

INTERNATIONAL

FACING FACTS

Our international business saw a year of successful reshaping as we closed loss-making outlets and changed our business model. As a result, profits more than doubled and we now have a much more defined platform for growth. However, much work remains to improve competitiveness and the supply chain to our franchise partners to enable them to compete with our major fashion retail competitors. Our ranges and supply chain arrangements are not yet flexible enough and our pricing is often high relative to local competitors. And our model for food supply continues to rely on high cost UK exports which limits the potential for an international food business.

WHAT'S HAPPENING

Our model for International is to focus on large territories where we can build a significant market presence and to operate through a limited number of strong, aligned franchise or joint venture partners.

Accordingly, we have completed our store closure programme with exit costs under budget. In total we closed 53 owned stores in ten markets. In December, we sold our Hong Kong business to Al-Futtaim, our Middle East and Asia franchise partner, to build our alliance further.

Now the rationalisation is nearly complete, we are setting up an improved franchise partner support team, as there is huge scope to improve the way we work with and support our partners. Already we have improved Clothing & Home fulfilment by 7% and modernised 58 international stores.

WHAT'S NEXT

In the year ahead we intend to continue the programme to greatly improve our fulfilment and supply chain arrangements with our major partners. We will modernise and open over 100 new stores in growth markets such as India and further adapt our ranges to move away from our current UK-centric model. We will also roll out lower pricing across our markets following a successful trial in Indonesia and Cyprus which saw average order volumes increase by 32% on an average price reduction of 18%. We will also provide effective online support for our franchise partners by providing a 'pay and play' local website and ordering models as piloted in the UAE this year. We are still at the early stages of developing our online strategy for territories not covered by franchise partners.

STRATEGIC REPORT

OUR PEOPLE

NUMBER OF EMPLOYEES	ENGAGEMENT SCORE	GENDER PAY GAP (MEAN)	MARKS & START PLACEMENTS
81,000	82%	12.3%	3,600

M&S has a longstanding tradition of employing excellent colleagues and creating an engaging and motivating working environment. Even today we retain extraordinary operating talent in our stores and many long-serving colleagues, with great technical skills. However, behind the indifferent financial performance of M&S over the last two decades lies an inability to change, borne out of a slow-moving organisation and bureaucratic culture. This is a consequence, in part, of the organisational structure which has been built around very strong functional silos, resulting in a loss of accountability and a 'staff' led decision-making process to which too many people are involved, and there is not enough speed and commerciality. This top-down silo structure has been compounded by a very strong sense of hierarchy which often means that ideas and challenges do not feed back to the leadership and the value of our passionate store management talent does not get exploited.

Our transformation therefore depends on simplifying this old culture and putting in place the fast-moving, participative organisation which is close to stores and the customer that our own colleagues want to see. That is why we have already moved towards our 'family of businesses' model in which accountability is driven down to strong business leaders and their teams. At the centre we will retain a streamlined top level team concentrating on strategy, finance, the consumer branding, and the 'digital' customer communications that bind the businesses together. At the same time we are moving towards a more 'hands on' participative style of trading. With the help of Julian Richer, one of Britain's top entrepreneurs, we are launching a new suggestion programme and revitalising two-way colleague communication. In the first week of the 'Suggest to Steve' project over 1,000 colleague suggestions went to the CEO and are all receiving responses from Steve.

We relaunched our Your Say Survey which has very high levels of response. Despite the difficult trading conditions and store closures, this produced an 82% engagement score, up slightly from 80% last year. But there was unsurprisingly strong feedback about the need to improve 'enablement', with a score of 78%, and increase the speed of decision making and change.

As we reshape the business and drive productivity we are managing considerable change at store colleague level and within our distribution network. Most notably:

- We streamlined our IT function and transferred 165 roles to TCS, our technology partner;
- We consulted with 311 colleagues about store closures at six initial closure stores in the financial year resulting in five redundancies; and
- As we completed our exit from ten owned international markets and moved to our new franchise model we reduced c.1,800 roles, almost all outside the UK.

To help manage these changes M&S operates a unique employee participation model through our Business Involvement Group (BIG). BIG is a network of elected colleagues who feed up to a National committee that works directly with the leadership team. The Chair of National BIG personally attends the main Board meetings twice a year, ensuring that colleague involvement is at the centre of the Board process. As we navigate difficult and sometimes painful changes, BIG provides a powerful format for consultation, ensuring that we engage colleagues fully on the process.

M&S always used to be a 'University of Talent' for the retail industry. As we make changes it is important to attract new talent to fuel the exciting programme of change at all levels. We are therefore entering new recruitment partnership arrangements, including with MBS, the recruitment agency and we are reinvesting in our industry leading graduate programme, recruiting 136 graduates last year.

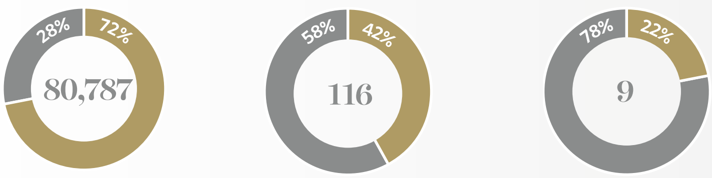
Although we retain a gender pay gap, it is lower than many of our competitors at a 12.3% mean compared to an industry average of 16.4%. Diversity and progressive working practices are at the heart of our belief system and we are moving all of the central team to open-plan Smarter Working offices, enabling working from home, and have launched a new diversity forum using our BAME, LGBT+ and other network groups.

EMPLOYEE DIVERSITY AS AT 31 MARCH 2018

Total employees
Female 58,119
Male 22,668

Total senior managers
Female 49
Male 67

Total Board
Female 2
Male 7



SMARTER WORKING

We continue to move forward with our Smarter Working plans, where improved use of space, technology and different ways of working will create a more agile and enabled workforce. The changes enable our people to work more collaboratively from any location – whether in store or from the office or home. In December, a poll showed 87% of employees believe Smarter Working will enable them to work more flexibly.

OUR BUSINESS MODEL

“The M&S Way”

A family of businesses joined by common brands, channels, and customer insights and a shared set of beliefs in quality, ethical sourcing and delivering value for money.

CUSTOMER DATA

Insight and loyalty building with 32 million customers.

CHANNEL MANAGEMENT

Shared retail outlets and online communications with great service experience.

BRAND

Unique own-brand model using strong technical and development skills to create trusted quality, value for money products.

FOOD

A leading fresh food own-label supermarket focusing on quality food for now or tomorrow for the family.

Read more on p6

FINANCIAL SERVICES

Through M&S Bank (managed by HSBC) we provide trusted services, including current and savings accounts, cards, insurance, mortgages and travel money.

PROPERTY

A £2.4bn property portfolio managed to maximise investment value and development opportunities arising from the retail brands.*

CLOTHING & HOME

Contemporary styles and wardrobe essentials at affordable prices for busy family and “encore” customers.

Read more on p7

* (as at 31 March 2018 Net Book Value)

KEY PERFORMANCE INDICATORS

FINANCIAL

GROUP REVENUE

£10.7bn +0.7%

Group revenues increased as a result of new Food store openings, offset by a reduction in International revenues as we completed the exit from ten loss-making markets.

GROUP PROFIT BEFORE TAX (PBT) & ADJUSTING ITEMS

£580.9m -5.4%

Group PBT before adjusting items was down on last year, largely due to the reduction in Food gross margin and the increase in operating costs associated with new space, volume growth and channel shift.

RETURN ON CAPITAL EMPLOYED (ROCE)

14.0%

The increase in ROCE largely reflects the reduction in the carrying value of property, plant and equipment.

ADJUSTED EARNINGS PER SHARE (EPS)

27.8p -8.6%

Basic EPS before adjusting items decreased primarily due to the lower adjusted profit generated in the year. The weighted average number of shares in issue during the period was 1,624.0m (last year 1,623.1m).

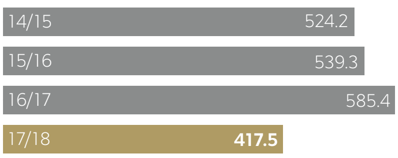
DIVIDEND PER SHARE

18.7p Level

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

FREE CASH FLOW (PRE SHAREHOLDER RETURNS)

£417.5m -28.7%



We delivered free cashflow down 28.7% on last year, primarily due to the cash outflows in respect of adjusting items and working capital.

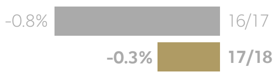
KEY PERFORMANCE INDICATORS CONTINUED

STRATEGIC KPIs

FOOD

LIKE-FOR-LIKE SALES

Like-for-like performance was down. While performance in key events was strong, our everyday performance was poor, with intense competition reflecting the progressive decline in value competitiveness in core ranges.



-0.3%

VALUE FOR MONEY PERCEPTION

There was a marginal improvement in customer feedback on the value for money of M&S Food. As part of our transformation we are re-establishing our value for money credentials.

+1%

AVAILABILITY

A project team with outside help has been set up to address the problems in our supply chain, including improving our availability.

92.4% -0.3%

QUALITY PERCEPTION

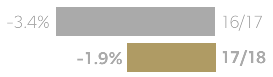
Customer feedback on the quality of M&S Food continued to improve in the year.

+3%

CLOTHING & HOME

LIKE-FOR-LIKE SALES

Like-for-like performance was down, as we eliminated two clearance sales.



-1.9%

VALUE FOR MONEY PERCEPTION

There was a slight improvement in customer feedback on the value for money of M&S Clothing & Home. We have taken initial steps to sharpen our value credentials in promotions and investment into lower 'first price.'

+2%

CLOTHING & HOME SPACE

We are accelerating our UK store closure programme, which will result in the reduction of around 25% of our 2016 Clothing & Home space.

-1.3%

STYLE PERCEPTION

Customer feedback on the style of M&S Clothing improved but we have much more to do to restore our style credentials to broaden our appeal to a younger family-age customer.

+3%

STRATEGIC KPIs

STORES

We are accelerating our UK store closure programme, which will result in the reduction of around 25% of our 2016 Clothing & Home space.

FOOTFALL (AVERAGE PER WEEK)

19.5m -0.3%

TRANSACTIONS (AVERAGE PER WEEK)

11.1m +0.3%

NET PROMOTER SCORE*

+5

ONLINE

We aim for a third of Clothing & Home sales to be online by 2022.

PERCENTAGE OF SALES ONLINE

18.5% +1.3%

TRAFFIC (VISITS PER WEEK)

8.3m +1.1%

NET PROMOTER SCORE*

+8

INTERNATIONAL

RETAINED MARKETS SALES

+2.8%

Sales from the International business including sales from owned business and sales to franchisees. Excludes sales from owned exit markets and Hong Kong following transition to franchise. At constant exchange rates.

CUSTOMER SATISFACTION SCORES

71% +6%

Overall satisfaction score provided by customers as part of the customer satisfaction survey conducted across the International business, including both owned and franchise stores.

* Net promoter score (NPS) equals 'fans' (those scoring 9-10 out of 10) minus 'critics' (those scoring 0-6) on a 11-point scale question of 0-10.

PEOPLE & PLAN A

PEOPLE

ENGAGEMENT

82% +2%

Our annual Your Say Survey was completed by over 70,000 colleagues, with engagement scores slightly higher than last year at 82%.

EMPOWERMENT

82%

ENABLEMENT

78%

We introduced two new measures to our annual Your Say Survey: whether our people feel they are supported and trusted in their role (empowerment) and whether our colleagues have the right tools and environment to do their job (enablement). Feedback showed colleagues wanted us to increase the speed of decision making and change.

DIVERSITY & INCLUSION

NON-DEMOGRAPHIC GENDER PAY GAP

1.5%

We are firmly committed to closing our non-demographic gender pay gap within M&S in the UK; this is the gap adjusted for different gender demographic by grade and the impact of disproportionately high female numbers in our retail operation.

M&S SENIOR MANAGEMENT DIVERSITY

22%

Female members of the Board

11%

Members of the Board drawn from ethnic minorities

By 2022, we aim to have 50% female representation and at least 15% BAME (Black, Asian and Minority Ethnic) representation on the M&S senior management team. As of 31 March 2018, 22% of our Board and 42% of employees in senior management positions across our global business were women and 11% of our Board was drawn from ethnic minorities.

PLAN A

PRODUCTS WITH A PLAN A QUALITY

83% +4%

This is the proportion of M&S products sold worldwide that have additional social or environmental benefits built into their specifications. This represents an improvement of 4% on last year. Our target is to have at least one Plan A quality in all M&S products by 2020, and by 2025 every product will have attributes which address all priority social, ethical and environmental impacts.

OPERATIONAL GREENHOUSE GAS EMISSIONS (CO_2e)

430,000 -10%

The gross carbon dioxide emissions resulting from M&S stores, offices, warehouses and vehicles worldwide are down 10% on last year. In addition, we purchase renewable energy and carbon offsets to match these emissions, making us the only major carbon neutral retailer in the world.

VOLUNTEERING HOURS

30,500 +31%

In 2017/18, we provided at least 30,500 hours of work-time volunteering, including our Making Every Moment Special in the Community event, which was run across the UK and Republic of Ireland in June 2017. Between 2017 and 2025, we are committed to supporting M&S colleagues worldwide to provide one million hours of work-time community volunteering.

STRATEGIC REPORT

FINANCIAL REVIEW

FULL YEAR REVIEW

	52 weeks ended		
	31 Mar 18 £m	1 Apr 17 £m	Change %
Group revenue	**10,698.2**	**10,622.0**	**0.7**
Food	5,869.9	5,649.0	3.9
Clothing & Home	3,741.1	3,792.7	-1.4
UK	9,611.0	9,441.7	1.8
International	1,087.2	1,180.3	-7.9
Group operating profit before adjusting items	**670.6**	**690.6**	**-2.9**
UK	535.4	626.2	-14.5
International	135.2	64.4	109.9
Net finance costs	(89.7)	(76.8)	16.8
Profit before tax & adjusting items	**580.9**	**613.8**	**-5.4**
Adjusting items	**(514.1)**	(437.4)	17.5
Profit before tax	**66.8**	**176.4**	**62.1**

CONSUMER AND RETAIL ENVIRONMENT

In 2017/18, consumer confidence remained broadly stable according to data from GFK. However, there continued to be a divergence between consumers' views on their personal financial situation which remained strong and their views on the economy as a whole, which were more fragile. Against this backdrop the clothing market declined 1.5% (Kantar Worldpanel, 52 w/e 9 April 2018), with a more challenging trend in the second half of the year. The grocery market returned to growth of 4% (Kantar Worldpanel, 52 w/e 25 March 2018), although this was largely driven by inflation.

UK: CLOTHING & HOME

Clothing & Home revenue declined 1.4% with like-for-like revenue down 1.9%, as we removed two clearance sales. Full-price sales were broadly level. Revenue declined in the second half in a more challenging market with unseasonal weather conditions. We delivered solid growth in strategic focus areas such as Kidswear, bras and footwear.

Gross margin was in line with expectations, up 50bps year-on-year. We offset significant currency headwinds by working with our supply base and through our direct sourcing programme. We put c.8% less stock into sale across the year as a result of the planned removal of two clearance sales. However, challenging trading conditions in the second half resulted in an increased depth of cut.

M&S.com revenues increased by 5.2% at constant currency. Performance was adversely impacted by the reduction in the number of clearance sales and capacity remained constrained at our Castle Donington warehouse in quarter three.

In the year ahead, we are building on early improvements in Clothing & Home by further focusing our ranges and building our style credentials, our offer in wardrobe essentials and our appeal to family-age customers. We are also investing selectively in value as we buy fewer items in greater depth.

In this first phase we are undertaking enabling actions including fixing core elements of our website, improving our delivery proposition and investing to increase the capacity of Castle Donington at peak periods.

We have accelerated the reshaping of our store portfolio to address the decline of the legacy estate and move to a more cohesive, modern space and layout, resulting in a charge to adjusting items of £321.1m. We anticipate further charges of up to £150m as we complete this programme. We continue to expect cash costs of the programme to be c.£200m. We have been encouraged by the proportion of sales transferred to nearby stores from those which have closed.

UK: FOOD

Food revenue increased 3.9% as we opened 62 new Simply Food stores; however, like-for-like revenue was down 0.3%. While performance in key events was strong, our everyday performance was poor, with intense competition and reflecting a progressive decline in competitiveness in the core ranges. Market share was level year-on-year. (Kantar Worldpanel, 52 w/e 25 March 2018).

The decline in gross margin of 140bps year-on-year was more than we expected. During the second half we continued to absorb input cost inflation.

In the year ahead, our focus is on repositioning the business to be more relevant, more often to our customers, to drive sustainable sales growth. We are changing our approach to product development to ensure we shift back to our strength in key shopping missions, with new lines which have a broad appeal to family-age customers and everyday occasions.

Our repositioning will require renewed investment in trusted value. We believe however that this will be offset by cost reduction, volume optimisation opportunities, removing excessive packaging costs, and tackling issues which impact availability and waste.

As indicated at the half year we have reviewed our Simply Food opening programme to limit future store expansion to only the highest returning locations. In addition, our accelerated UK store estate closure programme will result in a further reduction in the number of Full Line stores.

FINANCIAL REVIEW CONTINUED

UK OPERATING COSTS

	52 weeks ended		
	31 Mar 18 £m	1 Apr 17 £m	Change %
Store staffing	**1,070.6**	1,010.3	6.0
Other store costs	**992.1**	1,000.7	-0.9
Distribution & warehousing	**538.0**	519.6	3.5
Marketing	**151.6**	162.7	-6.8
Central costs	**698.0**	697.1	0.1
Total	**3,450.3**	**3,390.4**	**1.8**

UK operating cost growth was 1.8%, which was below expectations. Costs associated with new space and volume drove a c.2% increase overall. Wage and other inflation-related increases and investment in store staffing were largely offset by marketing and retail efficiencies.

Other store costs reduced. Favourable rates settlements, lower depreciation and reduced charges for utilities helped to offset the costs of new space.

The growth in distribution and warehousing costs was largely driven by inflation, volume and the costs of channel shift. In Clothing & Home we delivered improved costs per single as we increased utilisation of our Bradford warehouse.

Central costs increased in a number of areas including IT and the introduction of the Government's apprentice levy. However, these were offset by reduced costs following the head office restructuring and lower incentive costs year-on-year.

M&S BANK

M&S Bank income before adjusting items was down £9.9m to £40.3m. This was a result of changes to the assumed effective interest rate in both years and the implementation of IFRS 9, which resulted in higher bad debt provisioning. There was also a modest reduction in underlying interest-bearing balances.

INTERNATIONAL

	52 weeks ended				
	31 Mar 18 £m	1 Apr 17 £m	Change %	Change CC %	Change CC % excl. Hong Kong
Franchise	**360.6**	314.0	14.8	13.3	9.3
Owned Retained[1]	**660.2**	674.0	-2.0	-4.8	-1.1
Total Retained	**1,020.8**	988.0	3.3	0.9	2.8
Owned Exit[1]	**66.4**	192.3	-65.5	-66.7	-66.7
Total	**1,087.2**	**1,180.3**	**-7.9**	**-10.2**	**-10.4**
Operating profit before adjusting items					
Franchise	**86.1**	81.9	5.1		
Owned Retained[1]	**53.1**	16.8	216.1		
Total Retained	**139.2**	98.7	41.0		
Owned Exit[1]	**(4.0)**	(34.3)	88.3		
Total	**135.2**	**64.4**	**109.9**		

1. Last year restated for closure of our online business in China. Hong Kong results reported in owned retained until the business was sold to our franchise partner.

Reported International revenue decreased 7.9%. This was driven by the exit from loss-making owned markets and the sale of our operations in Hong Kong to our franchise partner.

Excluding these effects, revenue at constant currency was up 2.8%. We generated strong growth in franchise revenue, with an improved performance in the Middle East, Russia and Turkey and from expansion of our Food business. Revenue in owned retained markets was down 1.1% with a strong performance in India where we opened seven new stores, offset by difficult trading in the Republic of Ireland.

International operating profit before adjusting items more than doubled. We completed the planned exit of loss-making markets and generated improved margins in owned retained markets, largely driven by transactional currency gains.

NET FINANCE COST

	52 weeks ended		
	31 Mar 18 £m	1 Apr 17 £m	Change £m
Interest payable	**(95.4)**	(100.2)	4.8
Interest income	**6.0**	6.6	(0.6)
Net interest payable	**(89.4)**	**(93.6)**	**4.2**
Pension net finance income	**17.7**	29.3	(11.6)
Unwind of discount on Scottish Limited Partnership liability	**(10.9)**	(12.6)	1.7
Unwind of discount on provisions	**(5.2)**	(0.2)	(5.0)
Hedge ineffectiveness on financial instruments	**(1.9)**	0.3	(2.2)
Net finance cost	**(89.7)**	**(76.8)**	**(12.9)**

Net finance cost increased by £12.9m to £89.7m, largely due to reduced pension net finance income as a result of the lower UK defined benefit scheme surplus at the start of the year and the unwind of discount on property provisions. Net interest payable reduced by £4.2m primarily due to the repayment of the US$500m bond which matured in December 2017.

GROUP PROFIT BEFORE TAX AND ADJUSTING ITEMS

Group profit before tax and adjusting items was £580.9m, down 5.4% on last year. The decrease was due to the reduction in UK gross profit and the increase in operating costs in the year.

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. For further detail on adjusting items and the Group's policy for adjusting items please see Note 5 and Note 1 to the financial statements respectively.

	52 weeks ended		
	31 Mar 18 £m	1 Apr 17 £m	Change £m
Strategic programmes			
– UK store estate	**(321.1)**	(51.6)	(269.5)
– UK organisation	**(30.7)**	(24.0)	(6.7)
– IT restructure	**(15.5)**	–	(15.5)
– UK logistics	**(13.1)**	9.8	(22.9)
– Changes to pay and pensions	**(12.9)**	(156.0)	143.1
– International store closures and impairments	**(5.0)**	(132.5)	127.5
UK store impairments, asset write-offs and onerous lease charges	**(63.4)**	(48.8)	(14.6)
M&S Bank charges incurred in relation to the insurance mis-selling provision	**(34.7)**	(44.1)	9.4
Other	**(17.7)**	9.8	(27.5)
Adjusting items	**(514.1)**	**(437.4)**	**(76.7)**

We have recognised a number of charges in the period relating to the implementation of our strategic programmes:

- A charge of £321.1m in relation to the impairment of assets, accelerated depreciation and estimated onerous lease and closure costs relating to our UK store estate programme;
- A charge of £30.7m primarily relating to the consolidation of our central London Head Office buildings;
- A charge of £15.5m in relation to our technology transformation programme reflecting costs associated with the simplification and consolidation of our technology supplier base;
- A net charge of £13.1m as we continue to transition to a single tier Clothing & Home UK distribution network;
- A charge of £12.9m for the first year of transitional payments to employees impacted by the closure of the UK defined benefit scheme to future accrual; and
- A charge of £5.0m relating to the International exit programme.

UK store impairments, asset write-offs and onerous lease charges: since the announcement of the new UK store estate strategy, the Group conducted a review of the £4.8bn net book value of the property, plant and equipment on its balance sheet as at 1 April 2017. A one-off non-cash adjustment to depreciation of leasehold buildings assets was made of £45.8m. Additionally, we recognised charges in relation to UK store impairments and other asset disposals.

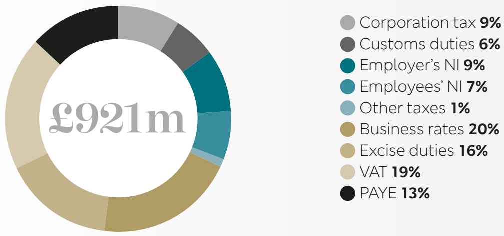
We continue to incur charges in relation to M&S Bank insurance mis-selling provision resulting in a reduction in income of £34.7m during the year.

On 30 December 2017, we completed the disposal of the retail business in Hong Kong and Macau to the Al-Futtaim Group resulting in a net profit on disposal of £5.8m. We also incurred charges for potential liabilities for certain employee-related matters.

TAXATION

The effective tax rate on profit before tax and adjusting items was 21.6% (last year 19.9%). This is higher than the UK statutory rate of 19.0% (last year 20.6%) due to the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership ("SLP") structure. The effective tax rate on statutory profit before tax was 56.4% (last year 34.4%) due to the impact of the SLP structure and disallowable adjustments items.

TOTAL TAX CONTRIBUTION



In 2018 our total cash tax contribution to the UK Exchequer was £921m (2017: £881m), split between taxes ultimately borne by the Company of £421m (2017: £423m) (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 £500m (2017: £458m) (i.e. PAYE, employees' NIC, value added tax, excise duties and sundry taxes).

EARNINGS PER SHARE

Basic earnings per share decreased by 77.8% to 1.6p, as a result of the lower adjusted operating profit and the increase in adjusting items due to the Group's strategic transformation programmes and the increase in effective tax rate. The weighted average number of shares in issue during the period was 1,624.0m (last year 1,623.1m).

Basic earnings per share before adjusting items decreased by 8.6% to 27.8p due to the lower adjusted profit generated in the year.

CAPITAL EXPENDITURE

	52 weeks ended		
	31 Mar 18 £m	1 Apr 17 £m	Change £m
UK store environment	**26.6**	22.6	4.0
New UK stores	**72.1**	75.0	(2.9)
International	**11.6**	13.4	(1.8)
Supply chain	**23.8**	34.0	(10.2)
IT & M&S.com	**91.9**	122.9	(31.0)
Property maintenance	**72.9**	90.3	(17.4)
Capital expenditure before disposals	**298.9**	**358.2**	**(59.3)**
Proceeds from property disposals	**(3.2)**	(27.0)	23.8
Capital expenditure	**295.7**	**331.2**	**(35.5)**

FINANCIAL REVIEW CONTINUED

Group capital expenditure remains well controlled resulting in a further 17% reduction year-on-year, before disposal proceeds.

UK store environment spend reflects the rebalancing of in-store layouts towards strategic growth priorities such as Kidswear and the rebranding of a number of Foodhalls.

Spend on UK store space was slightly down. Whilst we opened 40 new owned stores compared with 35 last year, the reduction reflects a freehold purchase in the prior year and slightly higher landlord contributions.

Supply chain expenditure reduced, reflecting the completion of larger projects such as the Bradford distribution centre in the prior year. During the second half we began investment in the new Welham Green distribution centre as we move towards completing our single tier network for Clothing & Home.

The decline in IT and M&S.com expenditure reflects the ongoing move towards more cloud-based software solutions and the investment in handheld devices and store technology in Retail in the prior year. We are also investing to migrate from our mainframe system.

Lower property disposal proceeds reflect the receipt of the final instalment from the sale of the White City warehouse received in the prior year.

CASHFLOW & NET DEBT

	52 weeks ended		
	31 Mar 18 £m	1 Apr 17 £m	Change £m
Adjusted operating profit	**670.6**	**690.6**	**(20.0)**
Depreciation and amortisation before adjusting items	**580.6**	589.5	(10.1)
Working capital	**(96.8)**	(7.5)	(89.3)
Defined benefit scheme pension funding	**(41.4)**	(36.6)	(4.8)
Capex and disposals	**(346.0)**	(383.2)	37.2
Interest and taxation	**(200.5)**	(202.6)	2.1
Non-cash share based payment charges	**18.9**	10.6	8.3
Share transactions	**(3.0)**	5.5	(8.5)
Free cash flow before adjusting items	**582.4**	**666.3**	**(83.9)**
Adjusting items cash outflow	**(164.9)**	(80.9)	(84.0)
Free cash flow	**417.5**	**585.4**	**(167.9)**
Ordinary dividends paid	**(303.4)**	(303.0)	(0.4)
Special dividend	**–**	(74.5)	74.5
Free cash flow after shareholder returns	**114.1**	**207.9**	**(93.8)**
Opening net debt	**(1,934.7)**	**(2,138.3)**	**203.6**
Exchange and other non-cash movements	**(6.9)**	(4.3)	(2.6)
Closing net debt	**(1,827.5)**	**(1,934.7)**	**107.2**

The business generated free cash flow before adjusting items of £582.4m, down £83.9m on last year primarily as a result of lower adjusted operating profit and a higher cash outflow on working capital partially offset by lower capex. The working capital outflow is driven by the impact of International market exits, a lower incentive accrual year-on-year and higher Clothing & Home stock at year end.

Defined benefit scheme pension funding in the year reflects the £36.4m second limited partnership interest distribution to the pension scheme in the current year as well as the final contribution for the defined benefit scheme paid after the prior year end.

Adjusting items in cashflow during the year include amounts relating to the closure of stores in international markets of £85.7m, the transition payments in respect of pensions and pay premia of £36.7m and M&S Bank of £34.7m. These were partially offset by the cash inflow associated with the disposal of the Hong Kong retail business of £22.9m.

Despite the significant cash outflows associated with our strategic programmes, net debt was down £107.2m on last year.

DIVIDEND

We have announced a final dividend of 11.9p (full year dividend 18.7p, level year-on-year). This will be paid on 13 July 2018 to shareholders on the register of members as at close of business on 1 June 2018, subject to approval by shareholders at the Annual General Meeting, to be held on 10 July 2018.

PENSION

At 31 March 2018, the IAS 19 net retirement benefit surplus was £948.2m (last full year £692.8m). The increase in the surplus is largely due to an increase in the discount rate and a change in mortality assumptions.

In March 2018, the UK defined benefit pension scheme entered into pensioner buy-in policies with two insurers for £1.4bn which reduced its longevity exposure to around one third of the pensioner cash flow liabilities.

The Strategic Report, including pages 19-24, was approved by a duly authorised Committee of the Board of Directors on 22 May 2018, and signed on its behalf by

STEVE ROWE CHIEF EXECUTIVE
22 May 2018

STRATEGIC REPORT

NON-FINANCIAL INFORMATION

Creating shared social and environmental value continues to be an important part of our transformation strategy and is underpinned by 100 non-financial commitments contained in our Plan A 2025 programme. The social, ethical and environmental content contained in this report complements more detailed information available in our 2018 Plan A Report which can be found online via **marksandspencer.com/plana**

IMPACT

Approach We employ 81,000 colleagues directly and are supported by hundreds of thousands more in our franchised operations and supply chain in the UK and across the globe. And we sell over 3 billion food, clothing, home and beauty products to 32 million customers each year at our 1,463 stores worldwide and online. Many different social, environmental and ethical issues have an impact on our business, either directly or through our global supply chain. Consequently, we have to manage a continually evolving set of issues and have a number of commitments and policies in place to address these challenges.

To read any of the policies listed on this page visit **marksandspencer.com/thecompany**

ENVIRONMENT

Approach We aim to offer our customers great value, quality products while also caring for the environment on which we all depend. As part of Plan A 2025, we aim to ensure 100% of the M&S products we sell each year address 100% of their material social and environmental impacts.

We will further improve the efficiency of our own operations as well as cut 13.3m tonnes of CO_2e from our wider value chain. We will continue to invest in carbon offsets for our own operations in order to remain carbon neutral. And we aim to be zero waste across all that we do – our operations, our supply chains and when our customers come to remove packaging and use our products.

Plan A Report 2018

Plan A 2025 Commitments

SOCIAL MATTERS

Approach M&S has a long tradition of our stores, offices and warehouses supporting their local community. We believe we can achieve more together than we can on our own. As part of Plan A 2025, we are committed to transforming 1,000 communities that we serve. We know supporting vibrant communities is essential to our own future success .

We are also committed to helping 10 million people live happier and healthier lives. We have a particular focus on addressing issues of mental wellbeing and will work hard to ensure support for colleagues and customers with cancer, heart disease, dementia and mental health issues.

Plan A Report 2018

Plan A 2025 Commitments

PEOPLE

Approach We are committed to making M&S a great place to work, with a safe working environment and a culture which promotes diversity, inclusivity, personal development and respect. We know it's our people who make M&S successful. Their talent, commitment to our customers and pride in M&S are key to our long-term growth.

Gender Pay Gap Report 2018

People Principles

Equal Opportunities Policy

Read more on Our People on p9

Read more on Board Diversity Policy on p35

HUMAN RIGHTS

Approach M&S has a long history of respecting human rights in the UK and standing up for those values internationally. Our commitment to human rights is reinforced in our Human Rights Policy and Code of Ethics and Behaviours and, for all suppliers and business partners, in our Global Sourcing Principles. We are also a signatory to the principles of the United Nations Global Compact. We strive to be a fair partner by paying a fair price to suppliers, supporting local communities and ensuring good working conditions for everyone working in our business and supply chains. We are committed to building our employee and supplier knowledge and awareness on human rights, encouraging them to speak up about any concerns without fear of retribution.

Human Rights Policy

Code of Ethics and Behaviours

M&S Global Sourcing Principles

M&S People Principles

Responsible Marketing Principles

Code of Practice on Ethical Trading

Child Labour Procedure

M&S grievance procedure for Food and Clothing & Home supply chains

Modern Slavery Statement 2018

Plan A Report 2018

ANTI-CORRUPTION AND ANTI-BRIBERY

Approach M&S is committed to the highest standards of ethics, honesty and integrity. Our Anti-Corruption and Anti-Bribery Policy outlines the expected standards of conduct that employees, contractors, suppliers, business partners, and any other third parties who act for and on behalf of M&S, are obliged to follow. The policy also includes detailed procedures around giving and receiving gifts, hospitality and entertainment; procedures for engaging new suppliers and partners, specifically those who are based in higher risk jurisdictions and standard contract clauses; and clear reporting channels, including confidential reporting. For colleagues who work in areas which may pose a higher risk we provide mandatory Anti-Bribery and Anti-Corruption e-learning.

Anti-Bribery Policy

Code of Ethics and Behaviours

STRATEGIC REPORT

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.

See our **Principal Risks** on p22-24

APPROACH TO RISK MANAGEMENT

The Board is accountable for identifying the principal risks facing the Company, including those impacting its business performance, customers, people, values, operations and ongoing viability. On behalf of the Board, the Audit Committee reviews the effectiveness of the risk management process, which is illustrated in the diagram below.

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 risk profile, consideration is given to risks that are external to our business, core to our day-to-day operations, shaped by business change, or any other that may impact achievement of our strategy. Current issues and areas of change emerging outside the half-yearly review are also monitored.

To ensure the most significant risks are managed effectively, we have enhanced our key risk analysis and reporting during the year. The changes provide more transparent insight into how these risks are being managed and to what extent performance is being impacted.

These improvements also drive clear accountability and ownership for risk at the most senior levels and improved monitoring at the Operating Committee.

The principal risks identified by this process form our Group Risk Profile, which is agreed by the Operating Committee ahead of approval by the Board. In addition to this formal review, significant 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 21.

OUR APPROACH TO RISK MANAGEMENT

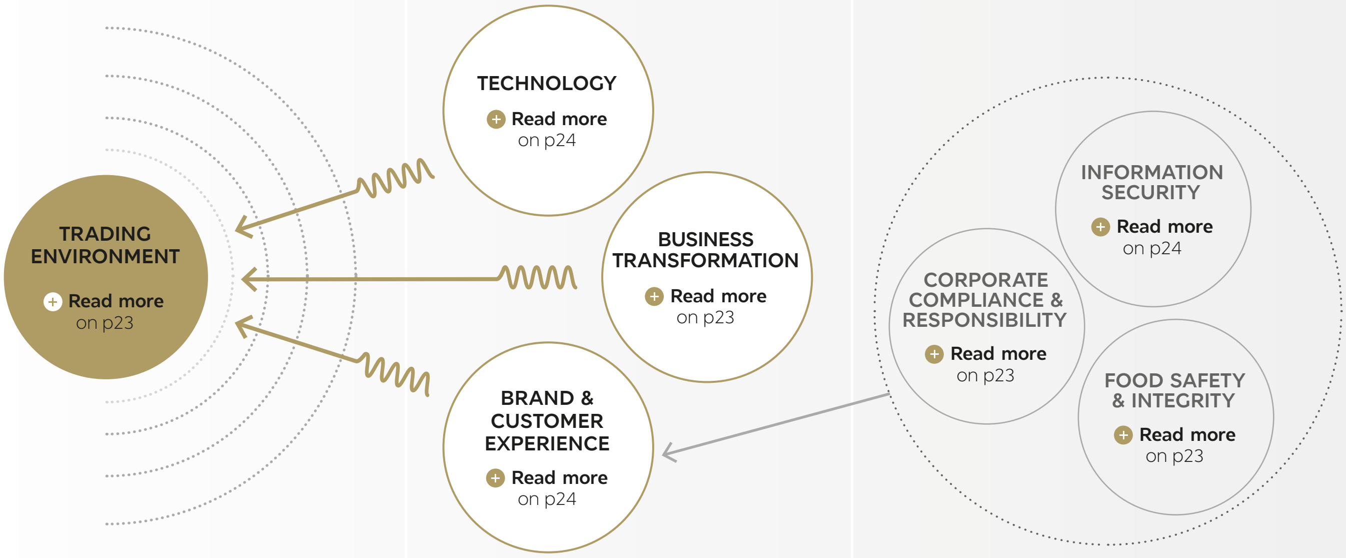
HOW OUR RISKS AFFECT ONE ANOTHER

We recognise that there is significant interdependency between our key risks. This diagram illustrates how changes to one risk might impact those connected to it. By understanding this relationship, 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.

Our business continues to operate in a trading environment that is unpredictable and highly competitive.

As part of our improvement programme, we invest in technology to respond to changes in customer preferences and behaviour, and drive operational effectiveness. Meanwhile, improving our brand and customer experience ensures we become more relevant, more often, to our target customers. While our business transformation, such as reshaping our store estate, ensures we create an environment that is relevant for today.

The strength of our brand is based, in part, on the way we run our Company. Customers have high expectations of us in terms of how we manage information security, food safety and integrity, and corporate compliance and responsibility risks.



Operational execution is dependent on attracting, retaining and rewarding the right people – and effectively working with our third-party suppliers and partners.

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. These scenarios focused on both external factors, such as Brexit and lower than expected market growth, and internal factors, such as strategic programmes delivering lower than expected benefits. 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 page 10), our strategy (see pages 4-5), risk appetite (see page 22) and our principal risks and uncertainties (see pages 22-24). 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 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 67.

RISK MANAGEMENT CONTINUED

PRINCIPAL RISKS & UNCERTAINTIES

Our Group Risk Profile evolves as circumstances and priorities change. This year we have aggregated risks that share common causes, impacts or mitigation.

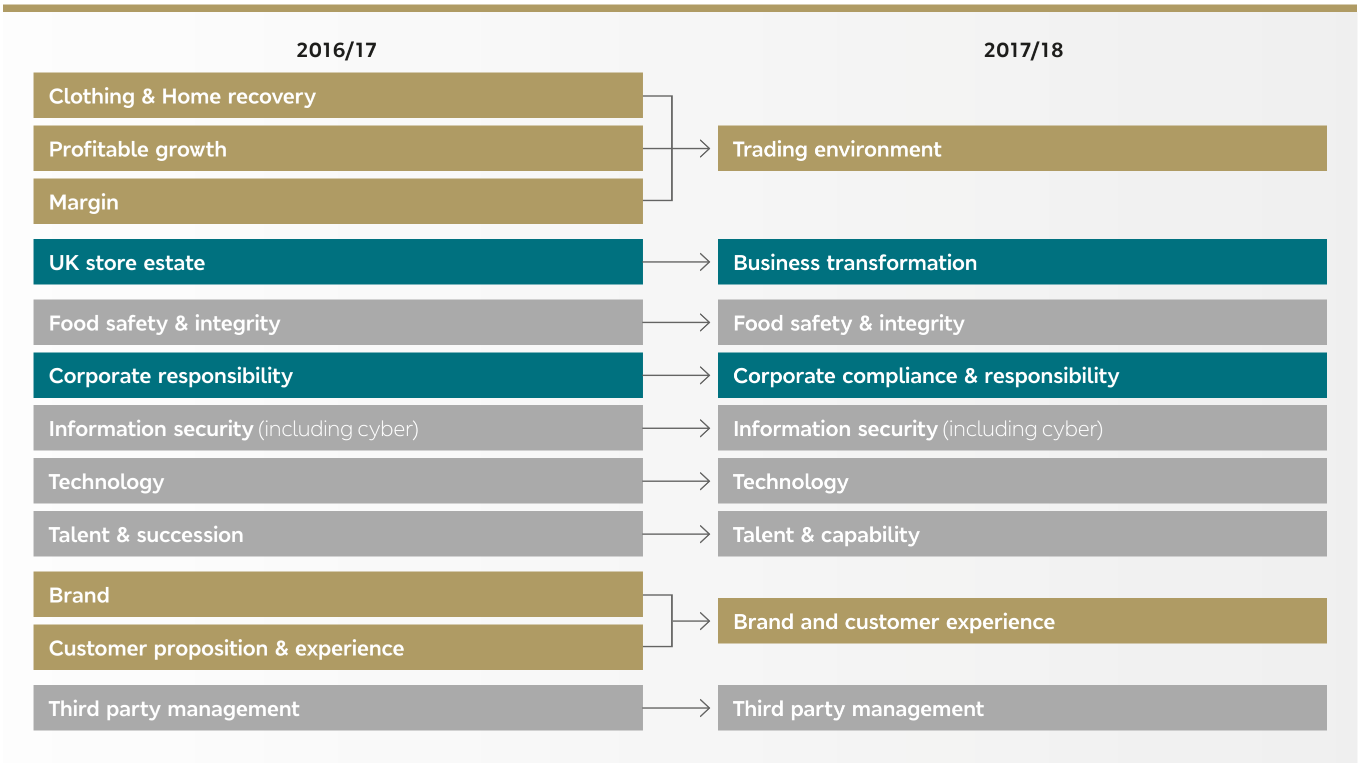
RISK APPETITE

The details of our principal risks and uncertainties and the key mitigating activities can be found on pages 23 and 24. We disclose those we believe are likely to have the greatest impact on our business at this moment in time. Our risk profile continues to evolve as we transform our business and, while our principal risks and uncertainties remain broadly consistent, we have refined our disclosure to ensure they remain relevant and reflect the changing landscape. The diagram below shows how our disclosure has evolved since the prior year.

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. We also continue to monitor current issues as they develop to ensure they are being effectively managed.

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 is expected to impact our business in a variety of ways. While this impact is not yet fully understood or quantifiable, we have considered Brexit within each Group-level risk where it is expected to have an influence. We acknowledge the need to be proactive, taking action as implications are better understood and we therefore monitor the Brexit risk profile of our business at both a Group and business area level.

EVOLUTION OF PRINCIPAL RISKS & UNCERTAINTIES



Risk key Consolidation of risks · Change in scope · No / Limited change year-on-year

PRINCIPAL RISKS & UNCERTAINTIES

RISK | DESCRIPTION & CONTEXT | MITIGATING ACTIVITIES

1

S

TRADING ENVIRONMENT

The performance of our business will be impacted if we fail to meet customer expectations or respond to the continued pressures of a changing retail environment. Aggressive competition, cost pressures and the consumer impact of the UK's departure from the European Union all contribute to the challenge that is faced.

Our Clothing & Home business must respond to the continued shift in customer preferences towards online and mobile shopping. Consequently, our strategy is focused on the creation of a seamless, relevant customer experience and the need to be 'Digital First'. We must also continue to strengthen capability across all areas of our Clothing & Home business to ensure we deliver contemporary, wearable style and wardrobe essentials that our customers want.

Food consumers continue to be driven by value and we need to ensure our product ranges resonate and are available at the right price. While we have limited influence over a number of contributory factors, for example raw material prices and the impact of Brexit, we recognise the need to manage costs, driving efficiencies and delivering savings in areas such as packaging and waste.

This new risk is a consolidation of a number of risks, which were disclosed separately in the prior year, to better reflect the increasingly challenging conditions facing our business.

Mitigating activities

- Development of, and delivery against, the five-year transformation plan.
- Targeted recruitment to strengthen capabilities of our senior leadership teams in both Clothing & Home and Food.
- Full strategic reviews and setting of clear short- and medium-term priorities for our businesses.
- Delivery of our International strategy.
- Refining our operating model to eliminate silos and create devolved, accountable businesses.
- Revised disciplines around store prices, ranges and promotions across our business.
- Implementation of our Digital First initiatives.
- Improved alignment of business needs and engagement with the UK store estate team, and changes to our Property leadership.
- Completion of a forensic review of costs and commencement of our cost delivery plan.

2

S

BUSINESS TRANSFORMATION

As we build a platform for change, the successful delivery of our business transformation programme is critical – a failure to execute faultlessly and at pace will hinder progression. Our business is undertaking a number of transformation projects; many of these are significant in their own right but the level of interdependency also requires careful alignment. Transforming our business will generate cost savings but also underpins the delivery of our strategic objectives.

- The reshaping of our UK store estate continues at an accelerated pace. We need to ensure that the programme delivers against agreed targets and that we incorporate changes in customer preferences into decision making on a timely basis.
- We must deliver on our Digital First ambitions – improving customer experience, reducing costs and working smarter across the business.
- Our supply chain must be fit for purpose. It is currently slow, outdated and expensive, and must be improved.

This new risk is an expansion of the prior year's specific risk around our store estate programme and now incorporates a far broader range of transformational projects.

Mitigating activities

- Acceleration of our plan to operate from fewer, larger Clothing & Home stores.
- Reassessment of the Simply Food store opening programme.
- Implementation of a Technology Transformation Programme, leveraging the support of key third-party relationships.
- Improvements to our website.
- Commencement of an end-to-end review of our supply chain and logistics network across both businesses to deliver improved efficiency of picking, improved trade utilisation and a faster, more reliable service for stores and customers.
- Operational improvements at Castle Donington.
- Strong programme governance to track progress against plan, resourcing and capability and to monitor critical interdependencies.
- High levels of cross functional engagement to ensure consistency and collaboration in setting and achieving objectives.
- Independent audit reviews of key programme delivery.

3

FOOD SAFETY & INTEGRITY

A food safety or integrity related incident occurs or is not effectively managed. Food safety and integrity remains vital for our business. We need to manage the potential risk to customer health and confidence that faces all food retailers, while also considering how external pressures facing the food industry could influence the integrity of our food, our reputation and shareholder value.

Many of these pressures, including inflationary costs, labour quality and availability, increased regulatory scrutiny and the as yet unknown impact of Brexit are outside of our control.

We also recognise the criticality of internal influences including the level of change underway in our Food business and the significant levels of new product development.

This all places greater demand on the technical team and suppliers to complete required raw material testing and product safety checks to guarantee provenance, safety and integrity.

Mitigating activities

- Clearly defined requirements through Terms of Trade, Codes of Practice, Standard Operating Procedures and Specifications from farm to fork, including in-store processes.
- Qualified and capable technical team. Professional status maintained through training and Technologist Continual Professional Development programme (independently validated by Institute of Food Science and Technology).
- Clear accountabilities for policy and standard development at technical leadership level coupled with individual accountability for product safety at technologist level.
- Long established store, supplier and depot auditing programme in place, including unannounced audits and raw material testing.
- Quarterly review of control framework by the technical leadership.
- Clear and tested crisis management plan in place to respond to incidents.
- Sector-leading initiatives, such as over the provenance of our beef.
- Membership of Food Industry Intelligence Forum.

4

CORPORATE COMPLIANCE & RESPONSIBILITY

Failure to deliver against our regulatory obligations, social commitments or stakeholder expectations undermines our reputation as a responsible retailer. Responsible corporate behaviour is a basic expectation of all businesses, especially those that are consumer facing. Public sentiment can shift rapidly, especially as the traditional influencers of public perception evolve and issues can escalate rapidly through social media.

There are also many examples of where 'good' corporate behaviour has, over time, become a legal or regulatory requirement. Human Rights, Modern Slavery, Anti-Bribery and Data Protection are just a few examples impacting our business. The mandatory nature of an increasingly broad and stringent legal and regulatory framework creates pressure on both business performance and market reaction. While our business operates appropriate controls, we recognise that potential non-compliance is a risk for all businesses and that there can be no room for complacency.

Given the high level of trust we have with customers and stakeholders, coupled with our high media profile, we must get this right.

Mitigating activities

- Clear policies and procedures in place, including Human Rights, Modern Slavery and Global Sourcing Principles.
- Mandatory induction briefings and annual training for relevant colleagues for key regulations.
- Oversight from established committees where necessary, including Data Protection, Fire Health & Safety and Plan A.
- Experienced in-house regulatory legal team with external expertise sought as needed.
- Dedicated regulatory officers in place across the business responsible for driving compliance.
- Strong and transparent engagement with regulators.
- Forward looking Plan A 2025 commitments with associated governance to anticipate future environmental and social issues.
- Established audit and monitoring systems in place.
- Customer contact centre insight and analysis of live social media issues.

Risk key Consolidation of risks | Change in scope | No / Limited change year-on-year | S Link to strategy

PRINCIPAL RISKS & UNCERTAINTIES CONTINUED

RISK	DESCRIPTION & CONTEXT	MITIGATING ACTIVITIES
5	**INFORMATION SECURITY (INCLUDING CYBER)** **Failure to adequately prevent or respond to a data breach resulting in business disruption, brand damage or loss of information for our customers, stakeholders or our business.** The increasing sophistication of potential cyber-attacks, coupled with the General Data Protection Regulation, highlight the escalating information security risk facing all businesses. Our reliance on a number of third-parties to host and hold data also means the risk profile of our information security is changeable. We recognise the importance of ongoing education and vigilance within M&S to reduce the likelihood of attack or breach in (i) an internal environment that is undergoing significant transformation and (ii) an external environment that is changing at pace. We must ensure that our control environment evolves and that our systems operate effectively. A data protection breach would not only impact our reputation, but would also cause business disruption and could result in a significant fine.	– Established security controls, including policies, procedures and use of security technologies. – Head of Data Governance and Data Governance Group in place. – Dedicated Corporate Security team with ongoing focus on improving the 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 assessments performed and refreshed. – Ongoing monitoring of developments in cyber security threats, engaging with third-party specialists as appropriate. – Periodic testing by Internal Audit. – Control of sensitive data through limited and monitored access and the roll-out of systems with enhanced security. – Dedicated workstream focused on information security as part of the Technology Transformation Programme.
6 S	**TECHNOLOGY** **To support future profitable growth, we need to keep pace and develop our technology and innovation capability.** The digital world continues to evolve at an unprecedented rate, influencing consumer behaviours and setting a high bar in terms of IT infrastructure requirements. We have clearly communicated our aim to be Digital First, and recognise the need to invest to achieve this. Our existing IT infrastructure needs to be more flexible to lower costs, leverage developments and enable us to move with pace to meet customer and colleague needs. In addition to developing our technology, we must develop the skills and capabilities of our people. This will be critical to providing a top quartile, seamless customer experience.	– Technology Transformation Programme in place, supported by strong governance principles, to enable the Digital First ambitions and to deliver improved customer experience. – New Technology Operating Model to drive clear accountabilities and efficiencies, including the adoption of industry standard agile methods. – Appointment of a leading technology company as our principal partner, coupled with simplification and consolidation of the technology supplier base. – Proactive simplification of IT infrastructure through clearly defined technology roadmaps for all business areas and strong governance processes. – Cross channel technology investment strategy in place and aligned to the family of businesses to mutually agreed priorities. – Quarterly reviews to ensure benefits are being delivered.
7 S	**TALENT & CAPABILITY** **We need to attract, develop, motivate and retain the right individuals to achieve our operational and strategic objectives to transform the culture and the business.** As we transform our business, the calibre of our people is integral to delivering operational and strategic objectives, and is especially important in our drive to be Digital First. Attracting, developing and retaining quality individuals is influenced by many factors, a number of which are outside of our control. Growing market labour shortages, which may be further compounded by Brexit, and the perceived fragility of UK retail could influence our ability to attract external talent. However, our focus cannot solely be outwards looking – our existing workforce is one of our greatest assets. We need to ensure that our colleagues and culture are developed to drive a Digital First and customer centric mindset, colleagues need to feel empowered to drive change at pace.	– Talent identified as a critical component of our People Strategy and a key enabler in the delivery of our overall business strategy. – People KPIs in place supported by talent review at all levels of the organisation. – Established biannual employee engagement survey, enhanced during the year to provide additional insight. – Clear focus and transparent action on fair pay, including gender, ethnicity, disability and age. – Launch of a new diversity forum. – Simplified, outputs focused framework introduced for performance management. – Commencement of externally facilitated culture assessment. – Active engagement with our Business Involvement Group.
8	**BRAND AND CUSTOMER EXPERIENCE** **Our brand and underpinning customer experience need to evolve with consumer lifestyles and attitudes for us to remain relevant and successfully attract and retain customers.** Consumer lifestyles and attitudes continue to evolve at pace in an increasingly diversified and competitive retail environment. We are proud of our strong brand recognition, but external pressures make it more difficult for all businesses to drive brand relevance and attract and retain customers, failure to do so creates the very real risk of a decline in market share. We must attract and retain our core customer segments. Our intention to be a customer-centric, Digital First business has been clearly communicated. We need to ensure that our organisational design and operating model support this aim and that we put the customer at the forefront of all our decision making. Our Sparks loyalty programme, marketing strategies and cross functional ways of working will be key enablers in achieving this, supported by meaningful measurement of customer experience.	– Targeted external hires to strengthen capability. – Revised operating model to better align brand and marketing with the specific needs of our two businesses. – Investment in capability to measure customer experience through introduction of an end-to-end and multichannel Net Promoter Score programme, supported by third party expertise. – Established Customer Insight Unit and focus groups in place. – Review of Sparks loyalty programme underway, supported by proposition improvements to strengthen member engagement. – Increasing our relevance and proactive monitoring of social media to observe and respond to trends in customer experience.
9	**THIRD PARTY MANAGEMENT** **To drive value for our business we need to successfully manage and leverage our third-party relationships and partners.** Our business is increasingly engaged in significant third-party partnerships. These span our full operating model, from products and services to franchise management and our international joint ventures. To fully leverage these relationships, we need to have clear, consistently applied processes to track performance, ensuring commercial expectations are delivered. We also recognise the importance of managing the business interruption risk conferred by such dependencies, and of maintaining appropriate contingency plans in response. We cannot lose sight of the expertise and effort that is required to effectively manage third-parties, especially as we move through our transformation programme.	– Clear procurement and supplier management policies in place, including specific requirements for strategic suppliers. – Defined service level agreements and key performance indicators in place for key contracts. – Defined contract governance and oversight standards, including dedicated 'supplier owners' managing key contracts. – Strong engagement with in-house legal and procurement teams. – Key supplier business contingency planning . – Internal audit engagement.

Risk key Consolidation of risks · Change in scope · No / Limited change year-on-year · S Link to strategy

GOVERNANCE

SUPPORTING STAKEHOLDERS: CHAIRMAN'S OVERVIEW

"As we embark on the journey ahead it is important we have a highly engaged board; one that is close to the business, able to both support and challenge the executive team and is well-equipped to oversee governance, financial controls and risk management."

ARCHIE NORMAN CHAIRMAN

AN ENGAGED BOARD

As we embark on the journey ahead it is important we have a highly engaged board; one that is close to the business, able to both support and challenge the executive team, and is well-equipped to oversee governance, financial controls and risk management.

There have been a number of changes to the Board this year. In July, Humphrey Singer will join as CFO following Helen Weir's departure at the end of March. In April, Patrick Bousquet-Chavanne stepped down from the Board, following the incorporation of the marketing teams into the Clothing & Home and Food businesses. Finally, Miranda Curtis left the Board in February. More information on these changes is available on pages 34-35.

We have a strong non-executive team with a breadth of experience and perspectives. We recently added to this with appointments of Katie Bickerstaffe and Pip McCrostie. M&S has long championed the benefits of a diverse board, being one of the first listed companies to appoint a female director and with strong female representation over the last decade.

As a result of the departures of Miranda Curtis and Helen Weir, at the time of publication of this report, we are below our target of 30% female directors.

In May 2018, we announced that Katie Bickerstaffe and Pip McCrostie would join the Board, subject to their election at the Annual General Meeting in July 2018. Following these appointments, female directors will comprise 30% of our Board.

BOARD ACTIVITIES

During the year we complied with all of the provisions of the UK Corporate Governance Code. In keeping with the rest of this Annual Report, this year's Governance section is more concise, with greater detail on the Board moving online to **www.marksandspencer.com/thecompany** in support of our future digital ambitions.

We will continue to drive the digital experience for our shareholders and reduce the clutter in our written reports going forward. A summary of the Board's activities and discussions during the year is presented on pages 28-29.

Over the last few months, the Board has reviewed its activities and the roles of its committees to ensure that it can focus on driving transformational change at pace. In particular, the Remuneration Committee was asked to increase its remit to cover senior leadership reward, pay policy, gender pay and employee engagement. This change was implemented ahead of the FRC's consultation on the revised UK Corporate Governance Code. The Committee's activities and its considerations on remuneration are outlined in detail on pages 42-62.

SUCCESSION, AUDIT AND TALENT

The Audit Committee's activities, considerations and judgments, including its review of our cyber and data protection environment, incident management and health & safety processes are set out on pages 36-41.

The Board and Nomination Committee's senior talent changes to build a first-class team to succeed in the retail environment of the future are set out on page 34.

Following the external independent evaluation last year, this year's Board Review was conducted by our Group Secretary. A summary of this and the actions for the year ahead are set out on page 33 of this report.

COLLEAGUE ENGAGEMENT

Engagement with and feedback from our colleagues across the business is vital, especially as we drive our transformation. A culture of transparency and open dialogue is key to this, which is why I spend my time as Chairman hosting numerous listening groups with colleagues from stores, distribution centres and offices.

We were delighted to invite the chair of our Business Involvement Group ('BIG'), which represents the interests of all our 81,000 colleagues, to attend one of our Board meetings and share with us colleague perspectives on the issues under discussion.

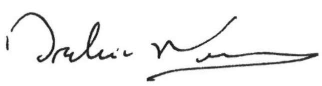
Going forward, we have agreed that the Chair of BIG will be invited to attend two Board meetings a year and will also be invited to attend at least one Remuneration Committee meeting each year.

Good engagement with our colleagues is vital as we embark on this period of change, and to support this we will look at ways to step up our communication with them during the year ahead. Details of the ways in which we engage with our stakeholders are available on pages 30-31.

RETAIL SHAREHOLDERS

Our Private Shareholder Panel had a good first year, meeting with members of the Operating Committee and Board and discussing a diverse range of topics covering Brexit preparedness, food pricing, customer trends and our Plan A community challenges. The candour, challenge and insights provided by these discussions validates this initiative as part of our broader stakeholder engagement programme.

We have an active programme to drive the panel's engagement in the year ahead.



ARCHIE NORMAN CHAIRMAN

LEADERSHIP AND EFFECTIVENESS

OUR BOARD

CHAIRMAN

Archie Norman
Chairman

Appointed:
September 2017

N R

Key strengths and experience

- Extensive retail and business leadership experience.
- Long-term track record of value creation and change in major British companies.

Archie is an experienced Chairman and former Chief Executive having led major transformation programmes at ITV, Lazard UK, Asda, Energis and Hobbycraft and Deputy Chairman of Coles Limited. In 2016 he was appointed as Lead Director at the Department for Business, Energy and Industrial Strategy.

EXECUTIVE DIRECTORS

Steve Rowe
Chief Executive

Appointed:
Chief Executive in April 2016

N

Key strengths and experience

- Very extensive in-depth commercial and retail experience.
- Extensive knowledge of M&S having worked in all major areas of the business.

Steve joined M&S in 1989 and worked in senior roles across all important areas of the business prior to his appointment as CEO, including Director of Home, Director of Retail, Director of Retail and E-commerce, Executive Director, Food and Executive Director, General Merchandise.

Humphrey Singer
Chief Finance Officer (Designate)

Appointed:
Incoming July 2018

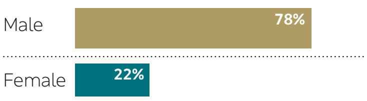
- Strong financial background and extensive retail expertise.
- Significant experience in delivering the transformational strategies of large listed businesses.

Humphrey will join M&S in July from Dixons Carphone, where he is currently Group Finance Director. He was previously Group Finance Director of Dixons Retail prior to its merger with Carphone Warehouse Group, and has also held senior finance roles at Cadbury Schweppes and Coca-Cola Enterprises UK. Humphrey is a non-executive director of Taylor Wimpey plc.

BOARD DIVERSITY

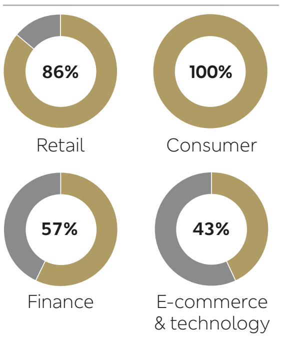
GENDER DIVERSITY

31 March 2018
(as at year end)



22 May 2018
(as at date of Annual Report)

SECTOR EXPERIENCE



NON-EXECUTIVE DIRECTOR TENURE

- 0-3 years **33%**
- 3-6 years **50%**
- 6-7 years **17%**

DEPARTURES SINCE 1 APRIL 2017

Robert Swannell Chairman
Retired: 1 September 2017

Miranda Curtis Non-Executive Director
Retired: 1 February 2018

Helen Weir Chief Finance Officer
Resigned: 31 March 2018

Patrick Bousquet-Chavanne Executive Director, Customer, Marketing & M&S.com
Resigned: 18 April 2018

UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code 2016 (the "Code") is the standard against which we measured ourselves in 2017/18. 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 concise, we have focused on the key governance issues only. Further detail on how we comply with the Code, including full biographies of our directors and our corporate governance statement, is available on our corporate website, **marksandspencer.com/thecompany**. More information is available on page 64.

KEY TO COMMITTEES

A Audit   N Nomination   R Remuneration   ● Committee Chair

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Key strengths and experience

Vindi Banga
Senior Independent Director

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

R N

- Extensive consumer brand knowledge and global business experience.
- Strong listed company board experience.

Vindi's in-depth knowledge of both UK and international trade and industry was gained over 33 years spent with Unilever, where he held a number of senior positions and was a member of the Executive Board. He has been a non-executive director at M&S since September 2011.

Andy Halford
Non-Executive Director

Appointed:
January 2013

A N

- Significant recent and relevant financial experience.
- International, consumer and digital experience.

Andy's strong finance background and broad knowledge of the UK and international consumer market was gained from CFO positions held in global listed companies. He is Chief Financial Officer of Standard Chartered, which he joined after 15 years at Vodafone, nine of which were spent as Chief Financial Officer.

Alison Brittain
Non-Executive Director

Appointed:
January 2014

A N

- Financial and commercial experience.
- Considerable knowledge of running large-scale consumer businesses.

Alison is CEO of Whitbread, an international organisation with a broad portfolio of hospitality brands, and was previously Group Director at the Retail Division of Lloyds Banking Group, with responsibility for its retail branch networks as well as its Retail Business Banking and UK Wealth businesses.

Richard Solomons
Non-Executive Director

Appointed:
April 2015

N R

- Strong global consumer experience.
- Extensive financial and branding experience.

Richard's breadth of consumer experience and considerable knowledge of global businesses was acquired from numerous senior roles held at IHG, where he was CEO until June 2017 and served as CFO prior to that, as well as in investment banking earlier in his career.

Andrew Fisher
Non-Executive Director

Appointed:
December 2015

A N

- International consumer and technology sector experience.
- Extensive knowledge of high-growth digital businesses.

Andrew is Executive Chairman of Shazam, where he has been instrumental in developing and executing a growth strategy to establish one of the world's leading mobile consumer brands, and brings over 20 years' experience leading and growing numerous technology-focused enterprises.

Katie Bickerstaffe
Non-Executive Director

Appointed:
Incoming July 2018

Extensive experience of retail transformation from a career in a variety of functions in leading UK retailers and consumer companies. Katie will bring deep understanding of retail and operations, as well as experience in marketing, people, property, and as a non-executive director, to M&S.

Pip McCrostie
Non-Executive Director

Appointed:
Incoming July 2018

With strong experience of finance and transactions from a career at Ernst & Young where she transformed and led the Global Corporate Finance business, Pip's understanding of global businesses, M&A, corporate transactions, and as a non-executive director, will bring financial and analytical discipline and skills to our Board.

GROUP SECRETARY

Amanda Mellor
Group Secretary and Head of Corporate Governance

Appointed:
July 2009

LEADERSHIP AND EFFECTIVENESS

BOARD ACTIVITIES

The Board is responsible for the stewardship of the Company, overseeing its strategy, conduct and affairs to create sustainable value growth for its stakeholders.

The following pages summarise the Board's activities over the course of the year. Although by no means exhaustive, the table below provides a flavour of the discussions and debates that take place within the Boardroom and details some of the ways in which the directors have discharged their duty to promote the success of the Company.

During the year, the Board reviewed in depth the challenges facing each of the businesses and agreed with the executive team to embark on a five-year transformation programme designed to make far-reaching changes to restore the businesses to profitable growth. With the executive team it has overseen significant changes in structure, people and organisation to enable the first phase of transformation.

The Board has debated the Group's key risks, along with external market risks, including the implications of Brexit and mitigating actions based on our understanding of the potential impact on the market, retail environment, our customers, our people and communities and our supply base.

STRATEGY & TRANSFORMATION

TOPIC	BOARD DISCUSSIONS, DECISIONS AND ACTIONS
Strategic priorities	– Discussed the ongoing transformation strategy with a continued focus on driving sustainable, profitable growth, addressing extant structural challenges and restoring the basics. – Agreed the next phase of our transformation, focusing on establishing M&S as the UK's essential clothing retailer, repositioning our Food business, growing International and substantially reducing our cost-base. – Discussed business performance and the key strategic priorities for Food, Clothing & Home and International with a focus on making our shopping experience special, improving store service and simplifying our head office structure. – Agreed our strategic objective to become a Digital First organisation, with a third of our Clothing & Home sales online.
Store estate	– Discussed the store estate programme, including criteria for further openings, redevelopments and closures, and the critical need to adapt our portfolio in a rapidly evolving market. – Reviewed the necessary actions and costs associated with delivering the strategic plan for the UK store estate. – Agreed the acceleration of the Clothing & Home space rationalisation plan and slowing of the Simply Food store opening plan.
International operations	– Re-affirmed our commitment to retaining our position as an international retailer, and working with our key international franchise partners to build a growing, profitable international business in our chosen markets. – Discussed the evolution of the franchise model in International, including pricing, risks and the longer-term structure of the international business. – Agreed the sale of our wholly-owned retail business in Hong Kong to an existing franchise partner.
Supply chain	– Discussed the end-to-end supply chain in Food and impact on availability, waste and potential cost efficiencies. – Discussed our digital fulfilment capability and the need to continue to invest in modernising our supply chain to enable rapid growth and help us match increasingly fast competitor fulfilment rates.
Technological capabilities	– Discussed the ongoing transformation of our technological capabilities and its impact on business culture and our suppliers. – Reviewed and agreed the next stage of the technology strategy with further debate around future requirements and areas for further development. – Ongoing progress made with strategic initiatives focused on simplification and reduction of costs.
Finance	– Discussed the Group's capital structure and assessed the Group's ongoing funding requirements under the transformation strategy. – Reviewed Group performance versus budget and the agreed targets for the year and approved the budget and targets for the year ahead. – Reviewed cash flow, dividend cover and shareholder returns, agreeing a full-year dividend of 18.7p.

GOVERNANCE & RISK

TOPIC	BOARD DISCUSSIONS, DECISIONS AND ACTIONS
Regulatory environment	– Discussed developments in the UK regulatory environment and the internal governance processes that support key projects. – Received regular updates on meetings of the Board's principal committees and discussed the key issues and topics raised.
Board succession & diversity	– Reviewed the Board's composition, diversity and succession plans. – Facilitated the transition for the new Chairman, including his induction process. – Agreed the appointment of Humphrey Singer as Chief Finance Officer.
Board Action Plan and review	– Reviewed progress against the 2017/18 Board Action Plan and set the Action Plan for 2018/19, with a clear process for monitoring ongoing progress. – Conducted an internally facilitated Board review covering the Board's effectiveness, processes and ways of working.
Risk	– Conducted half-yearly reviews of the Group Risk Profile covering core internal and external risks, risks driven by business change and areas of emerging risk. – Agreed the Group-level risks and appropriate mitigating activities and reviewed the processes and policies supporting these. – Ongoing robust debate around risk, including risk tolerance and factors contributing to any re-evaluation of the severity of particular risks.
Data governance and cyber security	– Discussed the Group's cyber security infrastructure in light of perpetually evolving threats. – Received regular updates on the Company's preparations for compliance with GDPR ahead of May 2018, when the regulations come into effect.
Modern Slavery	– Approved the Company's Modern Slavery Statement for publication on the corporate website.

For more information on **the role of the Board**, see p33

OUTSIDE THE BOARDROOM – PRIVATE SHAREHOLDER PANELS

Outside of their scheduled Board meetings, the Chief Executive, Chairman and members of the Operating Committee attended meetings of our Private Shareholder Panels held throughout the year, strengthening links between the Company and our retail investors.

The panel discussed a range of topics important to our retail investors and feedback from these meetings has been extremely positive. For more information on how we engage with investors and our other stakeholders, see pages 30-31.

PEOPLE & CULTURE

TOPIC	BOARD DISCUSSIONS, DECISIONS AND ACTIONS
People strategy & capabilities	– Reviewed the people strategy and current priorities in terms of succession, talent development and diversity across the business. – Discussed changes during the year in key roles and appointments and organisational structure to support the strategy.
Culture & ways of working	– Discussed the necessary shift required in the culture and values of the business to drive our transformation strategy and become a high-performance organisation. – Approved the consolidation and reconfiguration of our office space to better align with our Smarter Working principles.
Employee engagement	– Continued to encourage strong engagement between leadership and colleagues across the business. – Reviewed and evaluated the results of the annual Your Say survey completed by colleagues from across the business and identified areas of improvement. – Discussed colleague sentiment, key areas of concern and the employee perspective of M&S's future opportunities and risks. – Invited the Chair of the Business Involvement Group (BIG), our employee representative body, to attend a Board meeting to discuss the Company's strategy and future plans from the perspective of colleagues from across the Company's stores and offices.
Communities & Plan A	– Reflected on the impact and achievements of Plan A over the ten years since launch, and discussed how Plan A can be shaped to benefit our customers and the communities in which we operate over the next decade. – Reviewed the progress made towards our Plan A commitments in 2017/18.
Gender pay	– Discussed the Company's gender pay gap in the context of the wider market.
Diversity & inclusion	– Discussed our agenda to address the pipeline of women into senior roles and to drive greater diversity and inclusion, in terms of gender, ethnicity and social background, within the business.

CUSTOMERS, INVESTORS & SUPPLIERS

TOPIC	BOARD DISCUSSIONS, DECISIONS AND ACTIONS
Retail environment	– Discussed the challenging retail market, market share, store footfall, competition and market dynamics. – Discussed the announced store closure programme and impact on customer, investor and colleague sentiment. – Discussed the key drivers for consumer sentiment, impact on consumer confidence, spending intentions and the economy.
Brand and customer proposition	– Discussed the viability of an M&S online food delivery offer and approved a limited trial to run over the course of the year. – Evaluated the customer insight research conducted during the year and assessed resulting recommendations, including those in respect of our brand positioning, store environments and customer offer.
Investors	– Reviewed independent study of major investors' views on our management and performance, conducted by KPMG Makinson Cowell. – Reviewed the Company's financial results and press releases and approved the Annual Report and year-end disclosures.
Suppliers	– Continued to increase the breadth and depth of our work in the area of modern slavery. – Reviewed codes of practice in relation to our food suppliers.
AGM	– Reviewed specific issues raised by shareholders to be addressed in the Chairman's AGM statement. – Agreed the key topics raised by shareholders to be communicated together with an update on the Company's progress in these areas.

GOVERNANCE

HOW WE ENGAGE & RESPOND

Our rich network of stakeholder relationships upholds the values on which M&S was founded. These relationships are even more vital during this period of change.

OUR APPROACH

Engaging with our stakeholders is fundamental to the way we do business at M&S. We have over 160,000 registered shareholders, 81,000 colleagues and 32 million customers. We source our products from suppliers in over 70 countries. These individuals, businesses and communities are all integral to our business. We will only be able to successfully transform M&S with their input, cooperation and trust.

As a Board, stakeholder considerations are woven throughout our discussions and decisions. Like any business, sometimes we have to take decisions that adversely affect one or more of these groups and, in such cases, we always ensure that those impacted are treated fairly.

We have invested in the development and involvement of our stakeholder communities as we believe it is the right thing to do, not only for our stakeholders but for our business. These pages provide a snapshot of just some of the ways in which we do this.

COLLEAGUE ENGAGEMENT SCORE

82%

SHAREHOLDERS

While the Annual General Meeting has traditionally been seen as the highlight of the shareholder calendar, we believe that engagement with our private shareholders and institutional investors should be an ongoing process, not something we think about once a year. We connect with shareholders on an ongoing basis through a variety of channels including face-to-face meetings, webcasts, and an increasing amount of online content.

ANNUAL GENERAL MEETING (AGM)

Our 2017 AGM was well attended and all our proposed resolutions were passed, with votes in favour ranging from 89.57% to 99.99%. We have been providing live webcasts of our AGMs and preliminary and interim announcements for over a decade, bringing these events to thousands of shareholders all over the world.

ANNUAL REPORT AND ACCOUNTS

We go beyond our statutory obligations to provide what we hope is a holistic and engaging view of the business in a language that everybody can understand. Added to this is a wealth of online content which is publicly available on our corporate website.

ONGOING ENGAGEMENT

Members of our senior management and Investor Relations teams held 450 meetings with 272 different institutions during 2017/18. In addition, Archie Norman met with a number of our shareholders prior to his appointment as Chairman and continues to meet with institutional investors to discuss key issues.

INVESTOR PERCEPTION STUDY

Each year the Board receives an independent report from Makinson Cowell on our major investors' views on our management and performance. This enables us to monitor what we're doing right and where we need to increase our focus.

PRIVATE SHAREHOLDER PANEL

Following a successful trial last year, we have now formalised these regular meetings with groups of private shareholders. These are typically attended by either the CEO or a member of senior management and give private shareholders the rare opportunity to share their views in an informal setting.

ASSET REUNIFICATION

Through search programmes and changes to how we pay dividends, we proactively seek to unite shareholders promptly with their shares and dividend payments.

COLLEAGUES

We are committed to making M&S a great place to work. To do this, it is vital that colleagues are engaged with the business, especially now, at the start of this period of change.

BUSINESS INVOLVEMENT GROUP (BIG)

Engagement with our 81,000 colleagues is facilitated through BIG, a network of c.3,400 elected representatives from across all parts of the business. Local BIG teams regularly feed back to National BIG, whose chairman in turn represents the collective colleague voice through regular meetings with the Chairman and CEO. This year, BIG attended a Board meeting and going forward will also attend a Remuneration Committee meeting each year. BIG played a key role in the store closure programme in 2017/18, helping to mitigate personal impact to colleagues while supporting the business objective of rationalising the UK store estate.

COLLEAGUE UPDATES

Colleagues are kept informed of performance and strategy through regular business area 'huddles' as well as email, Skype and social media updates from members of the Board and senior management. Store colleagues also share their views with directors and senior managers through listening groups, in-store roundtables and online forums. Dedicated information is also provided on our pension schemes.

A DIVERSITY & INCLUSION

This year we were again recognised in The Times Top 50 Employers for women (eight years running). We ran four employee-led networks on gender, ethnicity (BAME), sexual orientation (LGBT+) and health conditions. These networks give a voice to under-represented groups, provide peer-to-peer support and help to influence the Company to become more inclusive. We also held our second Diversity & Inclusion festival, engaging thousands of colleagues across M&S.

TRAINING AND DEVELOPMENT

A wide number of initiatives and programmes are available to colleagues across the business, including subject-specific courses, inspirational talks, and mentoring programmes.

A VOLUNTEERING

During 2017/18, thousands of colleagues volunteered over 30,500 hours of work time to help hundreds of community projects. Our stores raised over £1m for charity and distributed over one million meals to local organisations.

YOUR SAY SURVEY

Our annual Your Say survey gives us an informed picture of how colleagues feel about the business. Over 70,000 of our colleagues choose to participate and share their feedback. The engagement score this year was strong at 82%.

Key
(A) Link to Plan A

CUSTOMERS

Our Insight team constantly gathers and analyses feedback from our customers to understand what they want from M&S. In addition to sharing key findings with the directors, we focused in 2017/18 on making our wealth of insight available throughout all levels of the business to ensure decisions are based on facts. This has enabled us to improve the shopping experience and to better understand how we need to position the business.

DIRECT FEEDBACK

We get direct feedback from our customers through a variety of channels including surveys, face-to-face interviews, and online input. During the year we launched a new initiative which gives customers the opportunity to feed back, either online or by telephone, on every transaction using information from their online or store receipt. This information is collated centrally and allows us to spot common themes quickly. Insight is then routed to the relevant teams within M&S so that action can be taken.

CURVE

Engaging with our plus-sized customers to better understand their clothing needs identified that they often felt ignored in the clothing market and were unable to find stylish clothes that fit well. We worked directly with these customers to craft a range specifically designed for shapely figures, engineered to fit and flatter, with designs that are right on trend.

RETAILER CHOICE

52,000 people took part in our comprehensive study into why customers choose one retailer over another. Critically, this ensured that the gap between M&S and key competitors was well understood and has informed our decisions about where to invest our resources.

QUICK TO COOK

Insight about our customers led us to develop a new range of part-prepared meal solutions that satisfy our customers' need for ultra-fast, protein-packed meals.

FOOTWEAR NAVIGATION

Customers told us that we should simplify how we display our footwear and arrange it by end use (e.g. work, occasion, sport). We took their feedback on board and customers now find it easier to find what they want.

(A) SPARKS CARD

6.6 million Sparks card holders currently receive tailored offers plus the chance to engage with a Plan A charity partner of their choice. Over £4m has been raised to date.

COMMUNITY

At the heart of M&S's engagement with the community is Plan A, our social and environmental sustainability programme. Building on ten successful years of this initiative, we launched Plan A 2025 in June last year, with three main goals: to help 10 million people live happier and healthier lives, to help transform 1,000 communities, and to become a zero-waste business. Find out more at **marksandspencer.com/plana**.

(A) COMMUNITY TRANSFORMATION

We aim to secure meaningful economic, social and environmental benefits to 1,000 communities around our stores and beyond by 2025. We held face-to-face consultations with representatives from ten pilot communities this year to find out what they want us to achieve, and now have detailed action plans and measurement systems in place for these.

(A) TOWN CENTRE REGENERATION

Building on the Business in the Community-backed 'Healthy High Streets' programme, 58 of our retail managers have played hands-on, lead roles in collaborations to improve town and city centres during the year, including a wide range of activities to support the development of Business Improvement Districts (BIDs) across the UK.

(A) WORK EXPERIENCE

Through Marks & Start we provide work experience for thousands of disadvantaged people across the UK and internationally. This year we offered over 3,600 work placements worldwide, with over 60% of those completing a placement in the UK or Republic of Ireland going on to find work.

(A) LOCAL FUNDRAISING

This year, 502 of our stores in the UK and the Republic of Ireland adopted a charity of the year and helped to raise over £1m. 514 of our stores donated surplus food to local charities. M&S stores in India also raised in excess of £40,000 in aid of two Indian charities.

M&S COMPANY ARCHIVE

- Over 43,000 people enjoyed discovering the M&S story through our Marks in Time Exhibition and the Archive's exciting programme of events in 2017/18. Visit **marksintime.marksandspencer.com**.
- Our award-winning programme now has a network of 50 specially trained Heritage Ambassadors in stores across the UK, delivering inspiring heritage-based sessions in local schools.
- We've expanded the Archive's support for people with dementia by extending our range of archive-based memory boxes, which are free to borrow for care homes and day centres across the UK.
- In March 2018, the Archive was successful in attaining accredited status from National Archives, the first ever retail archive to do so.

SUPPLIERS

As one of the most trusted brands in the high street, we believe we have a responsibility to be a fair partner to our suppliers. This covers the prices we pay our suppliers to the support we provide to the communities where we trade. It also means ensuring good working conditions throughout our supply chains and sourcing our products with integrity.

PREVENTING MODERN SLAVERY

We have continued to increase the depth and breadth of our work in the area of modern slavery, ensuring we have in place the most effective responses to potential risk. Further details of our efforts to eradicate modern slavery throughout our supply chains and operations are available in our 2018 Modern Slavery statement which is available online.

(A) GLOBAL COMMUNITY PROGRAMME

The M&S Global Community Programme aims to improve the lives of one million people in our suppliers' communities by 2025. During the year, the programme included projects across nine countries on issues including health, finance, farming and gender equality.

GLOBAL SOURCING PRINCIPLES

All our suppliers of goods and services are required to comply with our Global Sourcing Principles which require them to provide good working conditions, respect workers' human rights, and be subject to appropriate ethical monitoring. Food suppliers are also considered as part of our annual GSCOP report.

SUPPLIER COLLABORATION

Through collaborative workshops and toolkits, we work with suppliers to streamline processes and optimise volumes. The resultant savings are reinvested in price and quality and shared with suppliers to help them create further efficiencies.

TRAINING AND SUPPORT

We offer our suppliers and partners a range of training and development opportunities, including conferences and practical workshops. These cover a range of topics including local laws and sharing best practice examples to accelerate embedding respect for human rights into their businesses.

DAIRY FARM INITIATIVES

We continue to guarantee our pool of dedicated dairy farmers a set price for fresh milk under our 'Milk Pledge Plus' programme. During the year we also became the first major food retailer to have all its milk producing dairy farms assured by the RSPCA for animal welfare.

SUPPLIER SATISFACTION

Measuring supplier satisfaction is critical to our understanding of how well we are engaging with them. We use the independent Advantage Report Mirror to survey a proportion of our own brand (M&S Brand) supplier base each year. In 2017 we were ranked second overall out of the seven participating retailers.

GOVERNANCE

BOARD COMPOSITION & ATTENDANCE

BOARD COMPOSITION, ROLES AND ATTENDANCE AS AT YEAR END

CHAIRMAN	ATTENDED	MAX POSSIBLE	INDEPENDENT	RESPONSIBILITY IN 2017/18	LINKED TO REMUNERATION
Archie Norman	6	6		Board governance and performance, shareholder engagement	
Robert Swannell	2	2		Board governance and performance, shareholder engagement	
EXECUTIVE DIRECTORS					
Chief Executive Steve Rowe	8	8		Strategy and Group performance	✓
Chief Finance Officer Helen Weir	8	8		Group Financial Performance, Property, IT and Clothing & Home distribution	✓
Executive Director Patrick Bousquet-Chavanne	8	8		Customer, Marketing and M&S.com	✓
NON-EXECUTIVE DIRECTORS					
Vindi Banga	8	8	✓	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	8	8	✓		
Miranda Curtis	6	6	✓		
Andrew Fisher	8	8	✓		
Andy Halford	8	8	✓		
Richard Solomons	8	8	✓		

This table provides details of scheduled meetings held in the 2017/18 financial year.

For information on what the Board did during the year, see **Board Activities** on p28-29

BOARD MEETINGS

The Board held eight 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 have served more than seven 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 p26-27

GOVERNANCE

RESPONSIBILITIES & OVERSIGHT

ROLE OF THE BOARD AND ITS COMMITTEES

The Board is responsible for the stewardship of the Company, overseeing its strategy, conduct and affairs to create sustainable value for the benefit of its shareholders. The Board recognises that, to be successful over the long term, it has a wider duty to a broader stakeholder community whose support is required to create sustainable value. It is therefore essential that the Board considers the impact of the business and its decisions on our colleagues, customers, shareholders, suppliers and the communities in which the Company operates. Pages 30 and 31 highlight how we consider and engage with our stakeholders.

The Board discharges some of its responsibilities directly and others through its Board Committees and management. Board and Committee Terms of Reference are included in our Governance Framework, published on our corporate website.

The Board agrees, and has collective responsibility for, the strategy of the Company, which is outlined on pages 1 to 24. The Board delegates the execution of the Company's strategy, day-to-day management and operation of the Company's business to the Operating Committee, and is responsible for overseeing, guiding and holding to account management in carrying out these responsibilities.

The Board is responsible for:

- Ensuring leadership through effective oversight and review. Supported by its Board Committees, 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 (see pages 36-41); and
- Effective succession planning at Board level and for assessing the processes in place to ensure that there is appropriate succession planning amongst senior management. Much of this work is delegated to the Nomination Committee (see pages 34-35).

In addition to the other matters referred to in its framework, the Board is responsible for specific matters relating to strategy, finance, risk management, culture, ethics and behaviours, legal, reputation and public company management, internal control and audit. These matters, along with the individual roles of the Board members, are covered by the 'Schedule of Matters Reserved to the Board' in our Governance Framework, which is available on our corporate website.

BOARD REVIEW

Our annual Board Review gives us the opportunity to reflect on the effectiveness of our activities, the range of our discussions, quality of our decisions and for each member to consider their own performance and contribution.

This year our review was facilitated internally by our Group Secretary and Head of Corporate Governance, Amanda Mellor. Amanda was considered a suitable and independent sounding board for this process, given her insight into the day-to-day workings of the Board and its Committees and the support and advice provided to Board members throughout the year. In line with previous years, focused one-to-one discussions were held with each director around the following topics:

- Composition, skills, balance, experience and diversity of the Board;
- Culture and quality of contributions;
- Strategic and risk debate;
- Succession planning;
- Effectiveness of decision making;
- Resourcing of meetings, agenda planning, quality of information;
- Corporate governance, regulatory compliance and associated support;
- Evaluation of individual performance and areas for improvement; and
- Committee effectiveness and communications to the Board.

Following the Board review, the Senior Independent Director meets with directors to review the Chairman's performance. This review is then shared with the Chairman.

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

Overall the Board is considered a high calibre team, with a breadth of skills and experience contributing a wide range of perspectives and challenge. There is a deep sense of commitment to M&S.

The Chairmanship of Archie Norman is viewed highly positively in focusing the business agenda and purpose. Board discussions are generally considered open and challenging, with participation of members actively encouraged. The Board awayday was much improved and considered more productive in terms of the issues covered, with better discussion and debate with the additional involvement of the Operating Committee and other colleagues. The quality of papers along with comprehensive pre-reads to support discussions were substantially improved on previous years. Talent and succession was considered well managed during the year. Continued exposure to colleagues across the business is considered essential to ensure greater insight on talent development and capabilities. Governance knowledge, information and engagement with stakeholders was considered good and Board members felt well supported.

Board Committees were all considered to work well with thorough debate, a clear grasp of issues and subject knowledge. Committees are considered to be well chaired and managed.

The Board has agreed an action plan for the year ahead, with actions addressing the key areas of board oversight and focus on driving the transformation, reviewing key performance indicators and ensuring these are linked to the business objectives. Further initiatives to drive Board involvement in the business are in progress.

LEADERSHIP AND EFFECTIVENESS

NOMINATION COMMITTEE REPORT

"The Committee is focused on supporting the development of capabilities and talent across the business"

ARCHIE NORMAN CHAIRMAN OF THE NOMINATION COMMITTEE

INTRODUCTION

In my introduction to the Governance pages of this report on page 25, I referenced the importance to the business of an engaged Board that offers both support and robust challenge to our executive management, an approach that underpinned the work undertaken by the Nomination Committee (the "Committee") in light of the numerous changes to the Board over the past year.

In September 2017, my predecessor, Robert Swannell, retired after almost seven years as Chairman. Miranda Curtis, a non-executive director since 2012, stepped down in February 2018. Helen Weir and Patrick Bousquet-Chavanne left the Board in March and April 2018 respectively. Helen will be replaced by Humphrey Singer when he joins the business in the summer. On behalf of the Board, I would like to thank Robert, Helen, Patrick and Miranda for their significant contributions during their tenures.

This year the Committee's activities covered director capabilities and succession planning. The Board has long believed that diversity, together with the right blend of skills and experience, is an essential element of an effective board. This was a key consideration of the Committee in its search for additions to our team.

In May 2018, we announced that Katie Bickerstaffe and Pip McCrostie would join the Board, subject to their election at the Annual General Meeting in July 2018. Following these appointments, female directors will comprise 30% of our Board.

The Committee also continues to take an active interest in the quality and development of talent and capabilities below board level, ensuring that appropriate opportunities are in place to develop high-performing individuals and to build diversity in senior roles across the business.

EFFECTIVENESS OF THE NOMINATION COMMITTEE

NOMINATION COMMITTEE REVIEW

The Committee's performance was reviewed within the framework of the 2017/18 internal Board Review. The Committee is regarded as engaged and challenging. It was particularly noted for the additional time provided by its members for a number of unscheduled meetings to support key Board and senior management appointments during the year.

NOMINATION COMMITTEE ACTIVITY

During the year, the Committee held numerous unscheduled meetings in support of the search for senior appointments and continued to support the ongoing quality, development and capabilities of our senior talent. The Committee recommended the appointment of the Chairman, two non-executive directors and the appointment of Humphrey Singer as CFO to the Board.

Archie Norman met with colleagues from stores, distribution centres and offices, along with shareholders and other stakeholders as part of his induction.

ACTION PLAN 2018/19

For 2018/19, the Committee plans to:

- 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.

MEMBER ATTENDANCE	MEMBER SINCE	NUMBER OF MEETINGS ATTENDED	MAXIMUM POSSIBLE MEETINGS	% OF MEETINGS ATTENDED
Robert Swannell	4 Oct 2010	1	1	100%
Archie Norman	1 Sept 2017	2	2	100%
Vindi Banga	3 Sept 2011	5	5	100%
Alison Brittain	1 Jan 2014	5	5	100%
Miranda Curtis	3 Feb 2012	4	4	100%
Andrew Fisher	1 Dec 2015	5	5	100%
Andy Halford	1 Jan 2013	5	5	100%
Steve Rowe	2 Apr 2016	5	5	100%
Richard Solomons	13 Apr 2015	5	5	100%

BOARD DIVERSITY POLICY

Our objective of driving the benefits of a diverse Board, senior management team and wider workforce is underpinned by our Board Diversity Policy ('the Policy'), which can be viewed on our corporate website. The Board keeps the Policy under review to ensure it remains an effective driver of diversity in its broadest sense, having due regard to gender, ethnicity, background, skill-set and breadth of experience.

BOARD DIVERSITY: PROGRESS UPDATE

Maintain a level of at least 30% female directors on the Board over the short- to medium-term.
Following the departures of Helen Weir and Miranda Curtis during the year, the level of female representation on our Board reduced from 30% in February 2018 to 14% in May 2018. In May 2018, we announced that Katie Bickerstaffe and Pip McCrostie would join the Board, subject to their election at the Annual General Meeting in July 2018. Following these appointments, female directors will comprise 30% of our Board.

The Board is committed to its target for female representation and is mindful of the target set out in the Hampton-Alexander Review of 33% female representation by 2020. The Committee will continue to make recommendations for new appointments to the Board based on merit, with candidates measured against objective criteria and with regard to the skills and experience they would bring to the Board.

Our principles for board diversity also apply to our Operating Committee where female representation currently stands at 33%. The Board continues to strengthen the pipeline of senior female executives within the business, and ensure that there are no barriers to women succeeding at the highest levels within M&S. We are pleased that M&S was listed in The Times Top 50 Employers for Women in 2018 for the eighth year running.

Ensure long lists of potential non-executive directors include 50% female candidates.
All long lists for potential future non-executive director appointments include at least 50% female candidates.

Consider candidates for appointment as non-executive directors from a wider pool, including those with experience outside of traditional listed boards.
During the year, the Nomination Committee discussed non-executive director appointments and succession. It worked closely with executive search agencies in compiling long and short lists of candidates from various backgrounds and industries. Candidates were identified, interviewed and measured against pre-determined criteria. Although we do not currently openly advertise our non-executive director positions, we keep this under review.

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 supports the provisions of the Voluntary Code of Conduct for Executive Search Firms and only engages executive search firms who are signatories to this code. During the year, our work on succession was supported by Russell Reynolds and JCA. Neither firm has any other connection with the Company aside from the provision of recruitment services.

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.
The Board continues to support and encourage initiatives that strengthen the pipeline of executive talent in the Company. It continues to learn from existing programmes, while introducing new initiatives to provide development opportunities to drive the quality of talent throughout the business. Key activities include:

- A comprehensive talent review presented to the Board, mapping successional candidates and opportunities across all senior roles within the business.
- Initiatives for high potential talent 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 business school training.
- Senior management mentoring and coaching schemes and executive director-sponsored engagement forums.

Report annually against these objectives and other initiatives taking place within the Company which promote gender and other forms of diversity.
Diversity and inclusion have continued to be promoted across the business with a number of initiatives:

- Employee-led networks on gender, ethnicity (BAME), sexual orientation (LGBT+) and health conditions. This year, we held our second Diversity & Inclusion festival, engaging thousands of colleagues across M&S.
- Continued involvement in the 30% Club, an organisation committed to increasing female representation on UK boards.
- Active involvement in key campaigns including LGBT+ Pride celebrations, International Women's Day, Black History Month, National Inclusion Week, Mental Health Awareness Week and World Disability Day, raising awareness and our profile as an inclusive place to work.
- Our programmes to help people in our communities, including Marks & Start and Marks & Start International, continue to support young people, the homeless, lone parents and those with disabilities in finding work in our stores and distribution centres.

See p20 of our Plan A Report for further information on diversity across M&S, available at **marksandspencer.com/plana2018**

ACCOUNTABILITY

AUDIT COMMITTEE REPORT

"The Committee plays an essential role in safeguarding the interests of shareholders through continual review, challenge and debate."

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 31 March 2018. The following pages provide an insight into how the Committee discharged its responsibilities during the year and the key topics that it considered in doing so.

There were no significant changes to the Committee's primary functions this year, which included monitoring the integrity of the Company's financial statements and maintaining an appropriate relationship with Deloitte, the Company's Auditor. Also core was reviewing the Company's internal controls and systems of internal control and risk management, which included the alignment of risk and strategy in the context of sector disruption. In providing this independent oversight, the Committee continued to ensure that shareholder interests in relation to the Company's financial reporting and systems of internal control are protected.

This year, preparations for the implementation of GDPR necessitated the Committee's increased focus on the interrelated issues of data governance, cyber security and business continuity, with one or more of these subjects considered at each of our meetings. Another major area of consideration was the UK store estate and in particular the accounting judgements in relation to store closures. Further information on these and other key areas considered by the Committee during the year can be found within this report.

MEMBERSHIP AND MEETINGS

MEMBERSHIP

The Committee is comprised solely of independent non-executive directors, whose names are set out below. Miranda Curtis retired from the Board and the Committee on 1 February 2018. Detailed information on the experience, skills and qualifications of all Committee members can be found on pages 26 and 27.

The Board has confirmed that it is satisfied that Committee members possess an appropriate level of independence and offer a depth of financial and commercial experience across various industries, including the sector in which the Company operates. The Board has also confirmed that it is satisfied that Andy Halford possesses recent and relevant financial experience and the requisite competence in accounting.

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	3	4	75%
Andrew Fisher	3 Feb 2016	5	5	100%

1. Miranda Curtis was unable to attend the meeting on 14 September 2017 due to an external business commitment. She retired from the Board and the Committee on 1 February 2018 so was not eligible to attend the meeting on 13 March.

MEETINGS

The Committee held five meetings during the year. Members of senior management were invited to attend these meetings as and when their specialist technical knowledge was required.

The Committee also met without management present before each full meeting. We also met privately with the lead Audit partners, and separately with the Head of Internal Audit & Risk, after each Committee meeting.

As Committee Chairman, it is important that I fully understand any key areas of concern so that I can facilitate a meaningful dialogue during Committee meetings. To support this, I meet regularly on a one-to-one basis with the Chief Finance Officer, Director of Group Finance, Head of Internal Audit & Risk, other members of senior management, and the lead Audit partners.

COMMITTEE EFFECTIVENESS

EFFECTIVENESS REVIEW

The Committee's performance was reviewed within the framework of the 2017/18 internal Board review (discussed on page 33). Feedback on the breadth of oversight, level of challenge and quality of Board updates provided by the Committee was highly positive. The Committee is considered to function well, with structured meetings and good engagement and challenge provided across its remit by all members. It continues to be regarded as thorough and effective, although mindful of the time implications of its expanding brief.

It continues to provide the Board with a high level of assurance that audit matters are dealt with appropriately.

The Committee made good progress on the 2017/18 action plan, particularly in relation to the Internal Audit effectiveness review and implementation of the key findings. The Committee was also commended for its review and challenge in relation to GDPR preparedness and cyber security protocols. The Committee will build on this in 2018/19.

2018/19 ACTION PLAN

- Continue to monitor the recommendations of the Internal Audit effectiveness review undertaken in 2017/18.
- Continue to oversee the company-wide risk and assurance mapping.
- Continue to monitor oversight of data governance and cyber security controls.

COMMITTEE ACTIVITIES

CORE ACTIVITIES

The Committee undertook the following core activities during the year:

- Monitored the integrity of the annual and interim financial statements, with a focus on key accounting policies and judgements.
- Reviewed the Company's internal controls and risk management processes.
- Maintained the relationship with the external auditor, including monitoring their independence and effectiveness.
- Monitored and reviewed the effectiveness and independence of the Company's Internal Audit and Risk function.
- Reviewed the effectiveness of the Company's whistleblowing procedures.
- Reviewed and approved the Company's statement of compliance with the Groceries Supply Code of Practice.
- Reviewed the Board's approach to assessing the Company's long-term viability.
- Assessed whether the Annual Report, taken as a whole, is fair, balanced and understandable.

INTERNAL CONTROL UPDATES

The 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 in relation to furniture returns, fixed asset classification, corporate gift cards, and UK store estate strategy.

The Committee also monitors those elements of the control framework that, by necessity, are subject to regular review, challenge and update, most notably in relation to cyber security. As part of the annual review of internal control, the Committee revisits these matters to ensure agreed actions are being implemented to support a programme of maintaining and improving internal control.

The Committee noted the findings highlighted in the External Auditor Report and confirms that it is satisfied that there is no material misstatement and that relevant actions are being taken to resolve the control matters raised.

MANAGEMENT UPDATES

The Committee receives detailed updates from one or more business areas at each of its meetings. These presentations are scheduled on a rolling 12-month basis, with additional matters identified by Internal Audit added throughout the year as they arise. The following is an overview of some of the updates presented during 2017/18.

Data Governance and Cyber Security

- Received regular updates on the Company's extensive programme of work towards GDPR compliance; challenged assumptions and methodologies in relation to readiness and milestones.
- Received updates on initiatives to drive data and cyber security awareness and cultural change across the business.
- Discussed and challenged the Company's Cyber Operations Crisis Escalation Processes and the communications policies and procedures to be invoked in the event of an incident.

Business Continuity

- Received updates on the continued strengthening of crisis management and business recovery capability across all retail and distribution operations.
- Discussed key initiatives undertaken during the year, including a number of wide-reaching crisis management exercises and the successful introduction of increased incident reporting capability.
- Endorsed the priorities for 2018/19, including a review of the Company's top 30 critical suppliers, ongoing assessment and testing of global terrorism and cyber security preparedness, and continued enhancements to the My Safety app.

Fire, Health and Safety

- Updated on performance across all aspects of trading safely and legally and progress made in driving compliance standards.
- Discussed recent enhancements to international reporting lines and procedures.
- Updated on the approach to Fire, Health and Safety at the Castle Donington distribution centre.
- Following the identification of a masonry issue at one store, discussed action taken to review and monitor the condition of a number of buildings of similar age and construction.

Food Safety and Integrity

- Received an update on enhancements to the Company's approach to food safety governance and discussed the expected outcomes and practical considerations.
- Discussed the Company's approach in the context of the wider food market, rapidly evolving regulatory backdrop and inflationary pressures.
- Discussed the actions intended to preserve the frictionless import and export of goods post-Brexit.
- Discussed the Company's continued efforts to invest in the development of technical staff.

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 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 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 adjusting 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 adjusting 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; net costs associated with the implementation of strategic programmes in relation to UK store estate, UK organisation, UK logistics, IT transformational change and the closure of International owned businesses; impairments and write-off of the carrying value of UK stores (including associated onerous leases); charges arising in relation to changes to pay and pensions; potential claims/legal settlements; and the net profit on disposal of the Hong Kong retail business. This was an area of major focus for the Committee, which was cognisant of the need to ensure external disclosures are fulsome given the significance of the aggregate values (£514.1m charge) and the recent guidelines on the use of alternative performance measures issued by the European Securities and Markets Authority.

See note 5 on p89-90

PROPERTY MATTERS (INCLUDING ASSET WRITE-OFFS, ONEROUS LEASE CHARGES AND USEFUL ECONOMIC LIVES)

The Committee has considered the assessments made in relation to the accounting associated with the Group's UK store estate strategy. The Committee received detailed reports from management outlining the accounting treatment of the relevant charges including impairment, accelerated depreciation, strips and dilapidations, redundancy and onerous lease costs (including void periods). The Committee has reviewed the basis for the key assumptions used in the estimation of charges (most notably in relation to the costs associated with property exit/sub-let costs, the sale proceeds expected to be recovered on exit, where relevant, and the cash flows to be generated by each CGU in the period to closure). 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 in the current financial year. The Committee has considered the controls findings raised in the Independent Auditor's Report on page 68 to 76.

See notes 1, 5, 15 and 22 on p81-86, p89-90, p103-104 and p111

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 reports from management outlining the treatment of impairments, valuation methodology, the basis for key assumptions (e.g. 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 business are board approved. The Committee is satisfied that appropriate impairment of tangible and intangible assets has been recognised.

See notes 5, 14 and 15 on p89-90 and p101-104

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 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. The Committee has considered the accounting for the annuity buy-ins as disclosed on page 83 and considers it to be appropriate.

See note 11 on p95-98

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 the analysis of historical returns and redemption rates and has agreed with the judgements reached by management.

SUPPLIER INCOME

The Committee is satisfied that this continues to be monitored closely by management and robust controls are in place to ensure appropriate recognition in the correct period. The financial statements include specific disclosures in relation to the accounting policy and of the effect of supplier income on certain balance sheet accounts.

FAIR, BALANCED AND UNDERSTANDABLE

At the request of the Board, the Committee has considered whether, in its opinion, the 2018 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.

The Committee received a full draft of the report. Feedback was provided by the Committee, highlighting the areas it was felt would benefit from further clarity. The draft report was then amended to incorporate this feedback ahead of final 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 2018 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.

AUDIT COMMITTEE REPORT CONTINUED

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 four years. Following the 2018/19 audit (his fifth year as lead audit partner) a new lead audit partner will be put in place. 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 2018/19 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.

The FRC's Audit Quality Review ("AQR") team selected to review the audit of the Company's 2016/17 financial statements as part of their 2017 annual inspection of audit firms. The focus of the review and their reporting is on identifying areas where improvements are required rather than highlighting areas performed to or above the expected level. The Chairman of the Audit Committee received a full copy of the findings of the AQR team and has discussed these with Deloitte. The findings have also been discussed by the Audit Committee. Some matters were identified as requiring improvement and we have agreed an action plan with Deloitte to ensure the matters identified by the AQR have been addressed in the audit of the Company's 2017/18 financial statements.

EFFECTIVENESS

The effectiveness of our external auditor is assessed in accordance with a process agreed by the Audit Committee, which involves gathering information through a series of questionnaires tailored to the following target groups:

1. **Heads of Finance: Food, Clothing & Home and International:** Short questionnaire focusing on the audit team, planning, challenge and interaction with the business.
2. **Chief Finance Officer and Director of Group Finance:** Longer questionnaire covering all areas of the audit process and taking into account the questionnaires completed by the Heads of Finance.
3. **Audit Committee:** A high-level set of questions with specific focus on planning, execution, value, communication and challenge. The Committee was provided with a summary of the Chief Finance Officer and Director of Group Finance responses and had access to copies of the completed management questionnaires (sections 1 and 2 above) to assist with its own considerations.

Feedback from each of the target groups was positive overall. It was agreed that the audit partners have a good understanding of our business as well as our values and culture, with an increased awareness of property issues for which specialists within Deloitte have been leveraged. Areas of focus for the year ahead will be on driving analysis and challenge around finance, risk management and internal controls findings.

Adding a further Director to the team has addressed previous issues with availability and the team now appears to be well resourced. It was also widely agreed that a more critical lens was now being applied, with increased evidence of challenge in current judgements.

NON-AUDIT FEES

To safeguard the independence and objectivity of the external auditor, the Committee has put in place a robust auditor engagement policy which it reviews annually. The policy is disclosed on marksandspencer.com/thecompany.

The Committee is satisfied that the Company was compliant during the year with both the 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 to the financial statements.

The non-audit fees to audit fees ratio for the financial year ended 31 March 2018 was 0.11:1, compared with the previous year's ratio of 0.16:1. The majority of the £0.2m in non-audit fees paid in total to Deloitte during 2017/18 was incurred for assurance services 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 and assurance services for overseas entities. 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.

Business Consulting Services ("BCS"), part of BDO Bangladesh, have been providing employee payroll services to our Bangladesh regional office since 2008, acting as a sub-contractor of Ceridian UK until March 2012 and subsequently under a payroll service agreement agreed directly between M&S and BCS. In March 2018, Deloitte UK were informed of their Indian firm's intention to acquire BCS on 1 June 2018, at which point BCS would become subject to the global independence restrictions for M&S which are applied across the Deloitte network. As a result, the payroll service will not be permissible from 1 June 2018. This was immediately reported to M&S and the Bangladesh regional office have confirmed that these services will be transitioned to a new provider before 1 June 2018.

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 p22-24 of the Strategic Report for more information on our material risks

See p20-21 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.

SOURCES OF ASSURANCE

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.

During the year, the Internal Audit function was subject to an effectiveness review by the Committee to ensure appropriate ways of working. Resultant actions continue to be closely monitored by the Committee. The work completed by Internal Audit during the year has been directed towards key areas including information and data security and cross-business risks mitigation such as management of third parties.

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

3. **Functional assurance** Responsible for maintaining control over critical areas of risk, the processes and controls of these functions are tested by Internal Audit & Risk during relevant audits.

4. **Committees** Relevant committees within the organisation provide regular updates to the Audit Committee, including the Plan A Committee, which also reports directly to the Board.

GOVERNANCE

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.

The Committee has considered the controls findings raised in the Independent Auditor's Report on pages 68-76. No other significant failings or weaknesses were identified during the Committee's review in respect of the year ended 31 March 2018 and up to the date of this Annual Report.

Where the Committee has 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 our website.

INTERNAL ASSURANCE FRAMEWORK

Source of information		Frequency/nature of reporting	
Internal Audit	– Internal Audit Plan – Regular reports against Plan – Follow up of remediation – Updates on fraud, whistleblowing and other irregularity	**Formal updates presented to the Committee at each meeting** **Updates to Audit Committee Chairman**	**AUDIT COMMITTEE**
Management updates	Papers submitted on a range of issues including: – Information Security – Bribery – Code of Ethics and Behaviours – GSCOP (Grocery Supplier Code of Practice)	**Formal updates presented to the Committee annually and as appropriate**	
Functional assurance	Functional audit activities undertaken, including: – Food Safety & Integrity – Ethical Audits – Trading Safely & Legally	**Updates provided to the Committee as requested or appropriate**	
Committees	– Fire, Health & Safety Committee – Plan A Committee* – Business Continuity Committee	**Direct reporting lines to the Committee, with annual updates from the relevant executive**	

* Note: also reports directly to the Board.

STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS

GOVERNANCE

REMUNERATION OVERVIEW

VINDI BANGA CHAIRMAN OF THE REMUNERATION COMMITTEE

"Remuneration in M&S is aligned with the business performance and is in the best interests of the Company and its shareholders."

VINDI BANGA CHAIRMAN OF THE REMUNERATION COMMITTEE

IN THIS SECTION

Full policy available at marksandspencer.com/thecompany, and in the 2017 Annual Report

See **Remuneration report** on p50
See our **Strategy** on p1-24
See our **KPIs** on p11-14
Read our full **Remuneration Policy** at **marksandspencer.com/thecompany**

INTRODUCTION

On behalf of the Board, I am pleased to present our 2018 Remuneration Report. The Committee's report covers the required regulatory information, balanced against commercial sensitivities, and also provides further context and insight into our director pay arrangements.

The report provides a comprehensive picture of the structure and scale of our remuneration framework, its alignment with the business strategy and the rest of the workforce, as well as the payments approved by the Committee as a result of business performance for this year.

M&S's Remuneration Policy was approved by an overwhelming majority of 99.08% of shareholders at the 2017 AGM. In keeping with the more concise reporting adopted this year across the Annual Report, a summary overview of the directors' annual remuneration framework, including recruitment and termination policies reflecting the changes made to the top team during the year, is provided on pages 46-49. The full Policy can be viewed on the Company's website at **marksandspencer.com/thecompany**.

Detail of the approved Remuneration Policy in action during the year, the Committee's considerations and the intended arrangements for 2018/19 are set out on pages 50-62 of this report.

BOARD CHANGES

The Committee was closely involved with the arrangements in relation to a number of executive director changes announced during the year, including the appointment of Humphrey Singer as CFO and the departures of Helen Weir and Patrick Bousquet-Chavanne. Details of the leaving arrangements for Helen and Patrick can be found on page 59 of this report.

I am pleased that we not only secured the employment of Humphrey Singer under our normal framework, but that we were able to further simplify our pay structures, removing any additional allowances for pension or car from his arrangements.

Reflecting on these arrangements, the Committee believes that our Remuneration Policy continues to provide appropriate flexibility, while providing certainty that any payments made in the implementation of the Policy are in the best interests of both the Company and our shareholders.

CONTEXT OF BUSINESS PERFORMANCE

As referenced earlier in this Annual Report, a number of necessary steps taken to transform the business impacted the financial results for 2017/18. Group profit was impacted by the acceleration of the UK store closure programme; sales in Clothing & Home declined as a result of the continued focus on full-price sales, the removal of promotions and the number of clearance sales. Food performance was not strong enough throughout the year. As illustrated on page 43, there is a strong alignment between a number of M&S's key performance indicators (KPIs) and the performance measures used in the directors' incentive awards. As I describe later, it therefore follows that as a consequence of the above, total payments made to directors were lower this year than last year.

STRATEGIC ALIGNMENT OF REMUNERATION FRAMEWORK WITH KPIs

See **KPIs** on p11-14

2017/18 PERFORMANCE

GROUP PBT BEFORE ADJUSTING ITEMS	RETURN ON CAPITAL EMPLOYED	ADJUSTED EARNINGS PER SHARE	FREE CASH FLOW (PRE SHAREHOLDER RETURNS)
£580.9m	14.0%	27.8p	£417.5m
Group PBT was below the threshold for bonus payments in the business to begin. As such, the Committee exercised its discretion and no bonus payments were made to directors.	Average three-year ROCE performance of 14.2% (including 14.0% for 2017/18) was below the threshold required for this element of the 2015 PSP award to vest.	EPS growth was -5.6% over the three years ending in 2017/18 based on the outturn above. This was below the 5.0% growth required for any vesting under this element of the 2015 PSP award.	Cumulative cashflow performance for the three-year period ending in 2017/18 was £1,542m, which included £417.5m for 2017/18. As a result, 5.3% of the 2015 PSP award will vest.

STRATEGIC ALIGNMENT OF PAY

To support the transformation plans outlined by management, the Committee has considered the measures and targets used in M&S's incentive schemes, to ensure alignment of the Performance Share Plan and Annual Bonus Scheme with the KPIs being used within the business. This is designed to ensure that performance outcomes and any associated payments are aligned with business performance and the transformational journey of M&S. The illustration above demonstrates this strong linkage between the KPIs, payments to directors, and business performance over the short- and long-term.

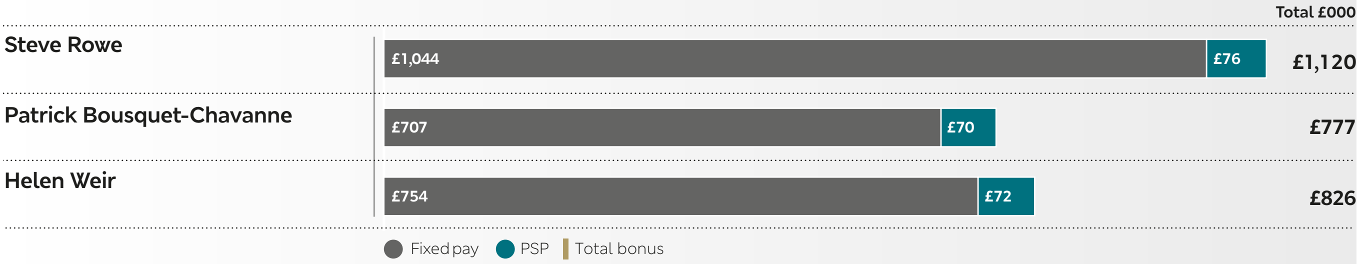
As outlined earlier in this Annual Report, M&S's focus is resolutely on the journey of transformation. The Committee is mindful of the strategic business discussions when considering incentive structures and performance assessments for the senior leadership team. As a result, and as outlined on pages 11-14 of the Annual Report, KPIs have been sharpened and focused to align with and support the transformation.

These changes have been mirrored by the reduction of the measures used within the senior remuneration framework which are disclosed on pages 53-55 of this report.

The Committee will continue to thoroughly review the pay structures and incentive arrangements for the senior leadership team to ensure strong alignment between the delivery of business performance and the associated remuneration arrangements as the business goes through the five-year transformation programme.

GOVERNANCE CONTINUED

SINGLE FIGURE REMUNERATION FOR 2017/18



See **Single figure remuneration** on p50
See **Annual Bonus Scheme** below and p52-53
See **PSP** on p54-55

TERMS OF REFERENCE AND WIDER WORKFORCE PAY ARRANGEMENTS

The role and remit of the Remuneration Committee was reviewed this year and broadened to include a more formal and wider consideration of our reward framework and fairness across the organisation. The key focus remains on ensuring that the M&S Remuneration Policy is implemented and applied in such a way to attract, retain and motivate its leadership, within a framework designed to promote the long-term success of M&S whilst being aligned with shareholder interests. However, M&S is a business of around 81,000 people and it is essential that the context of the wider workforce is taken into consideration when the Remuneration Committee is making decisions.

As a result of the review, the Committee will now regularly debate and discuss oversight of key people policy areas such as performance management, diversity and inclusion as well as gender pay reporting and reward framework and budgets. Furthermore, to demonstrate the Committee's commitment to meaningful and transparent engagement on pay practices in the wider workforce, the chair of M&S's employee representative body will be invited to attend and contribute to a Committee meeting each year. We welcome the opportunity this direct engagement will bring to the continued rigour of the Committee's discussions.

More detail around the remit and activities of the Committee can be found on page 61 and the Company's website at **marksandspencer.com/thecompany**.

COMMITTEE JUDGEMENT AND DISCRETION

The Remuneration Committee decided that it would exercise its discretion such that no payment would be made to any director under the Annual Bonus Scheme for 2017/18. This decision was not taken lightly and was the result of careful consideration of a number of factors, including the PBT outturn for the year against the financial plan and annual bonus payments to be made elsewhere within the business. In addition, the PBT achievement of £580.9m was below the threshold required to pay bonuses to colleagues elsewhere in the business and the Committee decided, in the interests of fairness, it would not be appropriate to pay a bonus to directors, irrespective of any achievement against each director's individual objectives.

This decision not to pay a bonus is in line not only with the Company's approved remuneration policy, but also the Bonus Scheme rules including the terms and conditions, which expressly allow the Remuneration Committee wide discretion to consider factors including the overall Company performance, individual contribution, future prospects of the Company and external market conditions, in deciding what, if any, bonus is payable. In particular, any discretion applied allows alteration, reduction or withholding of payment even in circumstances where targets are achieved.

However, in order to ensure continued strong governance and transparent reporting to shareholders, the Committee discussed each director's achievement against the relevant performance targets, noting their wider performance within the respective areas of responsibility and also achievement against Plan A targets and M&S values, which once again underpinned the Scheme. Final achievement against each director's individual objectives, as noted by the Committee, is detailed on page 52 of this report.

SINGLE FIGURE

The graph above summarises the total payments made to executive directors for 2017/18, illustrating the figures detailed in the single figure chart set out later in this report on page 50.

Overall pay levels for the executive directors were c. 33% lower than last year, reflecting the Committee's decision to apply discretion to not award bonus payments to executive directors during the year. In addition, 8.2% of the 2015 Performance Share Plan (PSP) awards will vest in July 2018, for the three-year performance period up to 31 March 2018. The Committee is satisfied that incentive payments made to executive directors during the year are fair in the context of business performance for 2017/18 and payments made elsewhere in the business.

PERFORMANCE SHARE PLAN VESTING

Performance Share Plan awards granted in July 2015 will vest in July 2018 to the extent that the respective performance conditions have been achieved.

At the time that measures and targets were set, the Committee debated the appropriateness of any metrics and targets in line with the strategic and financial plans of the Company. It determined that the measures used for the 2015 award would be EPS, ROCE and a financial strategic scorecard, including International business performance and Clothing & Home gross margin. These measures reflected the key drivers of shareholder value as well as the strategic priorities and key growth areas for the business.

The illustration opposite shows that 8.2% of the 2015 award will vest in July. With the exception of Clothing & Home gross margin and cumulative cash flow, performance against all measures was below the threshold required for vesting under any other element of the award. Page 55 of this report provides further detail on the specifics of the targets set and the respective achievement under each measure. The remit of the Committee is to ensure that targets set are considered to be stretching yet achievable, rewarding the delivery of sustainable, ambitious long-term performance. While this vesting is disappointing, the Committee is satisfied that this vesting is reflective of the disappointing business performance Steve Rowe and Archie Norman have both highlighted earlier in this Annual Report.

PERFORMANCE SHARE PLAN (PSP) VESTING 2018

Free Cashflow Growth

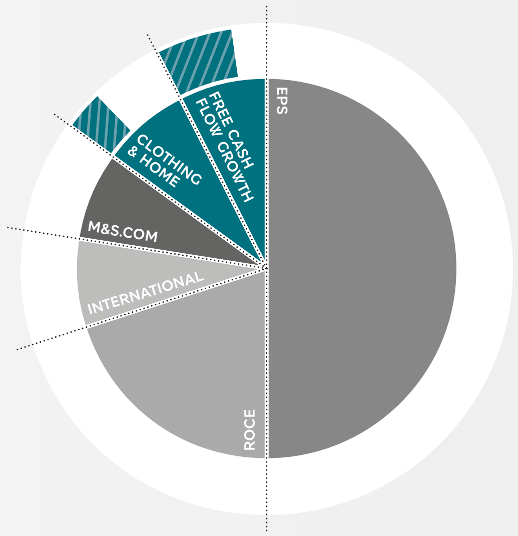
Maximum performance	7.5%
Actual performance	5.3%

Clothing & Home Gross Margin Growth

Maximum possible	7.5%
Actual performance	2.9%

M&S.com Cash Sales Growth

Maximum possible	7.5%
Actual performance	0%



Annualised EPS Growth

Maximum performance	50%
Actual performance	0%

Average ROCE

Maximum possible	20%
Actual performance	0%

International Cash Sales Growth

Maximum possible	7.5%
Actual performance	0%

See Performance Share Plan on p54-55

PAY ARRANGEMENTS FOR 2018/19

To ensure a consistent approach, 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. Despite no increase to Steve Rowe's salary since appointment, in line with salary freezes applied for the broader leadership team, the Committee determined, and Steve Rowe agreed, that it would not be appropriate to award any salary increase to the CEO for July 2018. Humphrey Singer will not be eligible for an annual salary review until July 2019.

The Annual Bonus Scheme remains unchanged from 2017/18 and will continue to be based on corporate financial targets (currently 70%) and individual objectives (currently 30%). The maximum opportunity will remain at 200% of salary. The main financial measure of bonus performance will continue to be PBT. As we enter the first phase of our transformation plan to restore the basics to deliver growth in the medium term, it is considered appropriate that PBT continues to represent the largest element of bonus potential. Individual objectives, detailed on page 53, have been designed to draw sharp focus to the activities that are most critical to our future survival and success. The PSP will be maintained in its current form for 2018/19. The continued inclusion of Relative TSR (TSR) as a measure within the PSP reinforces the alignment of executive interests with shareholders, representing the shareholder experience of M&S's performance. In addition, the financial measures of EPS and ROCE will continue to give focus to profitable and efficient business performance. Each of the three measures will continue to have equal weighting.

For this year, and reflecting the transformation expected from the business, the Committee has approved awards of 250% of salary to Steve Rowe and Humphrey Singer under the 2018 PSP. This decision was not taken lightly by the Committee and involved very careful consideration and discussion. It was agreed that maintaining the 2017 grant value, despite a disappointing business performance in 2017/18, would represent a clear signal to the most senior management that whilst there is hard work ahead as we move along the transformation journey to make M&S special again, truly excellent performance will be rewarded.

Given the continued challenges faced within the retail sector and the challenges faced by M&S during the 2017/18 financial year, the Committee believes that the targets set for the 2018 award represent stretching business performance. Maximum vesting would be representative of outstanding performance, both against the internal measures of EPS and ROCE but also against our peer group used for Relative TSR. Maximum achievement of the 2018 PSP targets would represent significant added value to both the business and shareholders. Whilst the appropriateness of targets and measures have been carefully considered, senior management should be under no illusion that the Committee, as demonstrated under 2017/18 Annual Bonus Scheme, would not hesitate to exercise its discretion to ensure that the 2018 PSP only vests to the extent that the Committee deems justified when considering the overall performance of the business across the relevant performance period.

Together with the rest of the Board, I look forward to hearing your views on the remuneration arrangements I have summarised on the preceding pages. I will be available to answer any questions you may have at the AGM.

Vindi Banga

VINDI BANGA
CHAIRMAN OF THE REMUNERATION COMMITTEE

REMUNERATION

SUMMARY REMUNERATION POLICY

This report sets out a summary of M&S's policy on remuneration for executive and non-executive directors. The full policy was approved by shareholders at the AGM on 11 July 2017 and can be found on our website at **marksandspencer.com/thecompany**. The policy took effect from this date and may operate for up to three years. The policy is designed to attract, retain and motivate our 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 our shareholders' interests.

SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 11 JULY 2017)

FIGURE 1: SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY TABLE

ELEMENT	OPERATION	OPPORTUNITY
BASE SALARY	Salaries are reviewed annually by the Committee, considering a number of factors, including: – Salary increases in the wider M&S workforce. – The experience, responsibility and contribution of the individual. – Salaries for comparable roles in appropriate comparator groups (such as major retailers and similarly-sized listed companies).	Annual increases are normally in line with those in the wider workforce, although no maximum is set. Individual adjustments may be made in appropriate circumstances (e.g. where the role scope has changed or as part of salary progression for newly-appointed directors).
BENEFITS	In line with our policies, executive directors are eligible to receive benefits which may include: – A car or cash allowance and a driver. – Life assurance. – Relocation and tax equalisation allowances in line with our mobility policies. As with all employees, directors are also offered other benefits including: – Employee discount. – Salary sacrifice schemes. – Participation in our all-employee share schemes.	There is no set maximum, however any provision will be commensurate with local markets and for all-employee shares schemes, the local statutory limits.
PENSION BENEFITS	M&S may choose to offer: – Participation in our defined contribution pension scheme; or – Cash payments in lieu of pension contributions. The defined benefit pension scheme is closed to new members. Directors who are members of this scheme will continue to accrue benefits as a deferred member.	Cash payments are capped at 25% of salary for executive directors appointed prior to 11 July 2017. For directors appointed to the Board after 11 July 2017, the cash alternative will be capped at a maximum of 20% of salary.
ANNUAL BONUS SCHEME INCLUDING DEFERRED SHARE BONUS PLAN (DSBP)	All directors are eligible to participate in the Annual Bonus Scheme, which is a discretionary, non-contractual scheme. Performance is measured against quantifiable one-year financial and individual performance targets linked with the sustainable delivery of our business plan. Targets are set at the start of the year and approved by the Remuneration Committee. At least half of awards are measured against financial measures which typically includes Group PBT before adjusting items (PBT). Corporate and individual elements may be earned independently, but no part of the individual objectives may be earned unless a 'threshold' level of PBT has been achieved. For threshold performance, up to 40% of maximum may be payable for the achievement of individual objectives (currently 30%). Not less than 50% of any bonus earned is paid in shares which are deferred for three years. The value of any dividends during the deferral period will be payable to the extent that the award vests. 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, the Company's overall performance and relative bonus payments across the organisation. Where exercised, the rationale for this discretion will be fully disclosed to shareholders in the subsequent Annual Report. The Committee can, in circumstances it believes appropriate, reduce to zero unvested deferred share awards. In certain circumstances, the Committee can also reclaim all or part of the cash bonus for up to three years after the payment date.	Total maximum annual bonus opportunity is capped at 200% of salary for each executive director.
PERFORMANCE SHARE PLAN (PSP)	To encourage long-term shareholding, to retain directors and to provide greater alignment with shareholders' interests, all directors are eligible to participate in the Performance Share Plan. This is a non-contractual, discretionary scheme and is M&S's main long-term incentive scheme. Performance may be measured against appropriate financial, non-financial and/or strategic measures. Financial measures must comprise at least 50% of awards. Measures currently include Adjusted Earnings Per Share (EPS), Return on Capital Employed (ROCE) and Relative Total Shareholder Return (TSR). The value of any dividends during the vesting period will be payable subject to the award vesting. The Committee can, in circumstances it believes appropriate, reduce to zero unvested PSP awards. In addition, the Committee can reclaim all or part of vested awards for up to two years after the vesting date in certain specified circumstances. 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.	The maximum annual value of shares at grant is capped at 300% of salary for each executive director.

SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY CONTINUED

FIGURE 2: RECRUITMENT POLICY & SERVICE CONTRACTS

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

ELEMENT	APPROACH
SERVICE CONTRACT	– All executive directors have rolling contracts for service which may be terminated by M&S giving 12 months' notice and the individual giving six months' notice.
BASE SALARY	– Salaries are set by the Committee, taking into consideration a number of factors including the current pay for other executive directors, the experience, skill and current pay level of the individual and external market forces. – The Committee may choose to set the salary below that of the market or the other directors with the intention of applying staged increases.
BENEFITS	– The Committee will offer a benefits package in line with our benefits policy for executive directors. The benefits provided will appropriately reflect the individual's circumstances.
PENSION BENEFITS	– Maximum contribution in line with our policy.
ANNUAL BONUS SCHEME	– Maximum bonus potential will be capped at 200% of salary in line with our policy.
PSP	– Maximum award of up to 300% of salary in line with our policy.
BUY-OUT AWARDS	– The Committee may offer compensatory payments or buy-out awards where an individual forfeits outstanding variable pay opportunities or contractual rights as a result of their appointment with M&S. – The specifics of any buy-out awards would be dependent on the individual circumstances of recruitment and would be determined on a case-by-case basis. On assessing such awards, the Committee will seek to make awards on a like-for-like basis to ensure that the value awarded would be no greater than the value forfeited by the individual. The Committee may choose to apply performance conditions to these awards.

In addition, the Committee in exceptional circumstances has discretion to include any other remuneration component or award which it feels is appropriate, taking into account the specific circumstances of the individual, subject to the limit on variable remuneration set out above. 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 which may be outside of the standard policy summarised within this report.

SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY CONTINUED

FIGURE 3: TERMINATION POLICY

The Company may choose to terminate the contract of any executive director in line with the terms of their service agreement either by means of a payment in lieu of notice or through a series of phased payments subject to mitigation. Service agreements may be terminated without notice and, in certain circumstances, such as gross misconduct, without payments.

The Company's policy toward exit payments allows for a variety of circumstances where a director may leave the business. In all circumstances, the Committee does not intend to 'reward failure' and will make decisions based on the individual circumstances ensuring they are in the best interests of the Company and shareholders at that time, and reflect the director's contractual and other legal rights.

The table below summarises our termination policy for executive directors under their service agreement and the incentive plan rules.

ELEMENT	APPROACH
BASE SALARY, BENEFITS AND PENSION BENEFITS	– Payment made up to the termination date.
ANNUAL BONUS SCHEME	– There is no contractual entitlement to a bonus payment. If the director is under notice or not in active service at either the end of the bonus year or on the payment date, awards (and any unvested deferred bonus shares) may lapse. The Committee may, however, use its discretion to make a bonus award, typically pro-rated for time and based on the performance assessed at the end of the bonus year.
LONG-TERM INCENTIVE AWARDS	– The treatment of outstanding share awards is determined in accordance with the respective plan rules. – For performance share awards held for at least 12 months, awards typically vest at the end of the relevant performance period (to the extent to which any performance conditions are met) and are pro-rated for time. The plan rules allow for the Committee to permit these awards to vest at the time the director leaves and to not apply time pro-rating. Awards which have not been held for 12 months upon leaving will lapse in full.
REPATRIATION	– M&S may pay for repatriation where a director has been recruited from overseas.
LEGAL EXPENSES & OUTPLACEMENT	– Where a director leaves by mutual consent, M&S may reimburse for reasonable legal fees and pay for professional outplacement services.

The full policy sets out further detail on the treatment of the executive directors' pay arrangements, including the treatment of share schemes in the event of a change of control or winding-up of the Company and some legacy long-term incentive plans which the Company operates. No current executive director holds unexercised awards under these legacy plans.

CONSIDERATION OF WIDER WORKFORCE PAY & SHAREHOLDER VIEWS

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. During the year the Committee is provided with information and context on pay in the wider workforce to enable its decision-making. This includes the approach for UK pay review, the total annual bonus cost budget and PSP awards to be made to directors below the Board.

The Committee receives updates on a variety of employee engagement initiatives including our annual 'Your Say' employee survey which asks employees about the relevance and recognition of excellence within employee pay and benefits. Employee representatives in our Business Involvement Groups are annually provided with an explanation of the executive directors' pay arrangements during the year, and are able to ask questions on the arrangements and their fit with the other reward polices at this time.

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

The Committee Chairman is available to answer questions at the Annual General Meeting (AGM) and the answers to specific questions are posted on our website.

SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 11 JULY 2017)

FIGURE 4: SUMMARY OF REMUNERATION POLICY

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

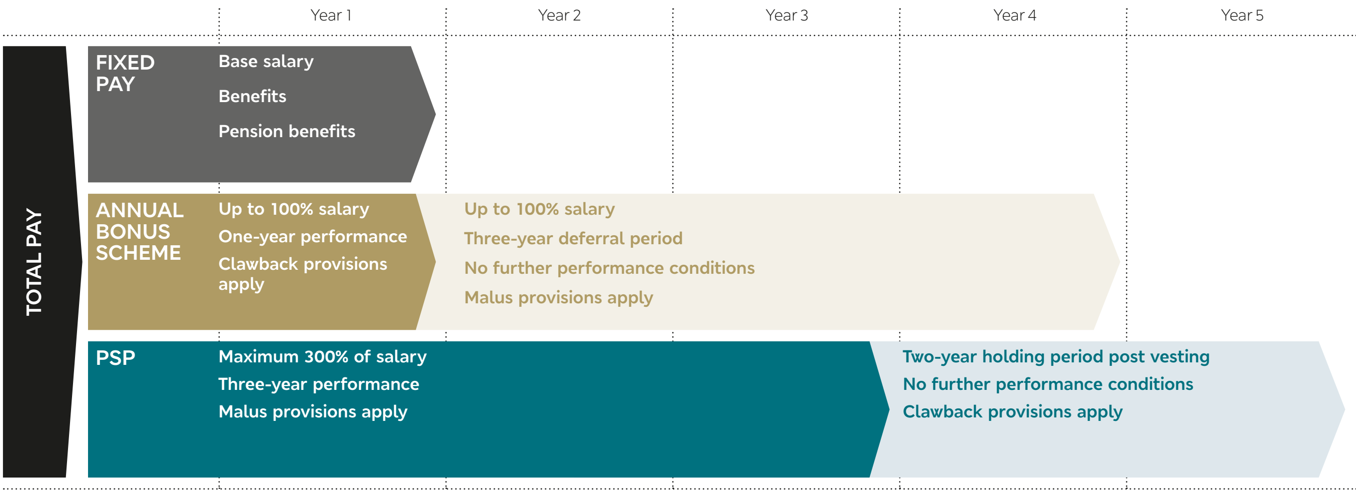


FIGURE 5: SUMMARY NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 11 JULY 2017)

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

ELEMENT	OPERATION AND OPPORTUNITY
SERVICE AGREEMENTS	– All non-executive directors have an agreement for an initial three-year term. The Chairman's agreement requires six months' notice by either party. The non-executive directors' agreements may be terminated by either party giving three months' notice.
CHAIRMAN'S FEES	Fees are reviewed annually by the Committee taking into consideration: – Time commitment, demands and responsibility of the role. – External market practice. The maximum aggregate fees for the Chairman and non-executive directors' fees is £750,000 p.a. as set out in our Articles of Association.
NON-EXECUTIVE DIRECTOR'S BASIC FEE	Fees are reviewed annually by the executive directors taking into consideration: – Time commitment, scope and responsibility of the role. – External market practice. The maximum aggregate fees for the non-executive directors' fees, including the Chairman's fee, is £750,000 p.a. as set out in our Articles of Association.
ADDITIONAL FEES	Additional fees are paid for undertaking the extra responsibilities of: – Board Chairman. – Senior Independent Director. – Committee Chairman.
BENEFITS	In line with our other employees, the Chairman and non-executive directors are entitled to receive employee discount. The Chairman may also be entitled to the use of a car and driver. No further benefits are provided to the Chairman or non-executive directors.
RECRUITMENT	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 and take into account the time commitment, role responsibility and market practice in our comparator groups when doing so. M&S may offer benefits to the Chairman in line with our policy.

GOVERNANCE

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 and individuals. As illustrated on page 45, a significant proportion of the performance measures used in the incentive schemes are integrated with M&S's key performance indicators (KPIs) detailed on pages 11-14. The diagram below illustrates the achievement of each executive director 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 7) and later in this report.

See **KPIs** on p11-14

FIGURE 6: REMUNERATION STRUCTURE 2017/18

Fixed pay	+ Annual bonus	+ PSP	= Total pay for 2017/18
Base salary Benefits Pension benefits	200% salary maximum bonus opportunity (with 50% deferral) Measured against a balance of Group PBT before adjusting items (PBT) and individual performance	250% salary awarded in 2015 Measured against adjusted EPS (EPS), average ROCE and a scorecard of other strategic priorities. Achievement was 8.2% against targets set	Total payments are between 23% and 24% of maximum potential
No salary increase	No bonus payment	8.2% of award vested	

For more **information** see p52

For more **information** see p55

FIGURE 7: 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	2017/18	810	31	0	76	203	**1,120**
	2016/17	809	32	599	0	202	**1,642**
Patrick Bousquet-Chavanne	2017/18	546	24	0	70	137	**777**
	2016/17	546	22	459	0	137	**1,164**
Helen Weir	2017/18	590	16	0	72	148	**826**
	2016/17	590	19	496	0	148	**1,253**

Helen Weir left M&S on 31 March 2018. Patrick Bousquet-Chavanne left the Board on 18 April 2018 and will leave M&S on 31 May 2018. Further details of their leaving arrangements can be found on page 59 of this report.

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

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

SALARIES

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, historic increases made to the individual and, to ensure a consistent approach, the salary review principles applied to the rest of the organisation.

As reported in last year's report, all executive directors were awarded a salary increase by the Committee of 2% for salaries effective July 2017 but, in support of the proposed pay changes made elsewhere in the UK organisation, they chose to decline this increase.

For salaries effective July 2018, only Steve Rowe was eligible to be considered for a review. In line with salary freezes for the broader leadership team, the Committee decided, and the CEO agreed, that it would not be appropriate to award any salary increase to the CEO for July 2018, despite no increase in Steve Rowe's salary since his appointment to CEO in 2016.

Helen Weir and Patrick Bousquet-Chavanne will no longer be employed by M&S in July 2018. Therefore, they were not eligible for a salary review.

The next annual salary review for the CEO and CFO will be effective in July 2019.

The table below details the executive directors' salaries as at 1 April 2018 and salaries which will take effect from 1 July 2018.

FIGURE 8: SALARIES

	Annual salary as of 1 April 2018 £000	Annual salary as of 1 July 2018 (or date of appointment) £000	Change in salary % increase
Steve Rowe	810	810	0%
Humphrey Singer (July 2018)	–	600	–

BENEFITS (AUDITED)

The Remuneration Policy permits that each executive director may receive a car or cash allowance as well as being offered the benefit of a driver. During the year, Steve Rowe and Patrick Bousquet-Chavanne received a car and the benefit of a driver. Helen Weir received a cash allowance.

Humphrey Singer receives neither a car nor cash allowance, and will not have the benefit of a driver.

The Company provides each director with life assurance.

In line with all other employees, executive directors receive employee product discount and are eligible to participate in salary sacrifice schemes such as Cycle2Work.

PENSION BENEFITS (AUDITED)

All executive directors during the year received a cash payment in lieu of participation in an M&S pension scheme. In addition, Steve Rowe is a deferred member of the Marks & Spencer UK Pension Scheme. Details of the pension accrued during the year ended 1 April 2018 are shown below.

Humphrey Singer is eligible to participate in the M&S pension scheme. He will not receive any additional payments if he chooses not to participate in this scheme.

FIGURE 9: PENSION BENEFITS (AUDITED)

	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	153	0	4	0	4,714

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 2018. 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 2017/18 (AUDITED)

Annual performance for the year was again primarily measured against Group PBT before adjusting items (PBT) (70%) and individual performance (up to 30%). PBT is used as a core bonus measure as it is considered to be an important measure of overall performance and is consistent with how business performance is assessed internally by the Board and Operating Committee.

Individual performance was measured against a mixture of collective objectives (10%) and performance aligned with each director's specific areas of responsibility (20%). These measures were aligned with the key strategic business priorities identified prior to the start of the financial year and comprised a balance of financial and quantitative non-financial measures.

PBT outturn for the year was £580.9m which was below the threshold set to trigger payments under the corporate element of the Scheme. This level of PBT performance meant that no bonuses would be paid elsewhere in the organisation. As such, it was decided that the Committee would exercise its discretion such that there would not be any bonus payment to any directors as a result of this overall level of business performance, irrespective of any performance against individual objectives. This decision was made following careful and thorough consideration of several factors, including the broader expected and actual financial performance of the Company together with the fairness of, and likely impact on colleague morale, where no bonuses would be awarded elsewhere. The Committee decided, and the CEO agreed, that it would not be appropriate to pay any director a bonus under these circumstances.

As a consequence of the Committee's application of discretion, no bonus payments will be paid to directors in relation to 2017/18 performance. The total bonus paid column in Figure 10 is zero for all directors. This figure directly corresponds to the value shown in the single figure table on page 50.

That said, the Committee did continue to review the achievement of the individual objectives set at the start of the financial year to fulfil its remit and to enable transparent disclosure to shareholders. For completeness, the table below shows the achievement against each director's individual objectives, as noted by the Committee. In noting this performance, the Committee considered not only the achievement against the pre-determined targets, but also the wider performance within these specific areas to ensure that any achievement noted was representative of overall performance. In addition, and consistent with prior years, success towards Plan A targets and M&S values which underpinned the Scheme was also taken into account. The Committee noted that, while Plan A remains an important cornerstone of the way M&S does business, the drive towards the transformation plan has meant that at the end of the first year of the new Plan A 2025 strategy, 12% of targets are currently behind plan.

The Committee ensures that targets set are the relevant drivers of required annual performance, recognising that it operates in the context of a highly competitive market. Some of the specific targets set for 2017/18 remain too commercially sensitive to disclose as they are not disclosed elsewhere in this report. To the extent these targets are able to be reported, they have been described. The Committee will continue to assess the commercial sensitivity of targets with the aim of disclosure wherever possible, while ensuring that any measures set are those most appropriate to restore the business to profitable growth.

FIGURE 10: ANNUAL BONUS SCHEME OUTTURN 2017/18 (AUDITED)

Director	Corporate (70%)	Customer (10%)	Strategic (10%)	Financial (10%)	Total bonus following application of RemCo
Steve Rowe **PBT** Threshold £585m / Stretch £663m **£580.9m**	**0%**	**Customer Satisfaction:** Clothing & Home Net Promoter Score (NPS) significantly improved achieving above stretch performance, although this did not translate to above Plan sales. Food NPS was below target. **5%**	**Succession Planning:** Key senior appointments made during the year, in particular within Clothing & Home and Food, to support and drive continued transformation and demonstrating a commitment to building strong internal succession planning. **5%**	**UK Like-for-Like Sales:** Continued reduction in promotional activity and markdowns led to below target UK like-for-like sales of -0.9%. **0%**	£0k **/ £1.62m** Overall % of Salary (200% max) 0%
Patrick Bousquet-Chavanne **PBT** Threshold £585m / Stretch £663m **£580.9m**	**0%**	**Customer Satisfaction:** Clothing & Home Net Promoter Score (NPS) significantly improved achieving above stretch performance, although this did not translate to above Plan sales. Food NPS was below target. **5%**	**Sparks Activity:** Increased active user numbers and resultant sales. Taking into account this performance, plus wider Sparks strategic progress, target achievement agreed. **5%**	**M&S.com UK Revenue and Operating Profit:** Disappointing sales through the UK M&S.com channel against targets set led to below target revenue and operating profit for this year. **0%**	£0k **/ £1.09m** Overall % of Salary (200% max) 0%
Helen Weir **PBT** Threshold £585m / Stretch £663m **£580.9m**	**0%**	**Customer Satisfaction:** Clothing & Home Net Promoter Score (NPS) significantly improved achieving above stretch performance, although this did not translate to above Plan sales. Food NPS was below target. **5%**	**Property:** UK store estate programme delivered the change in space within budget and timelines. However, it was determined that some of this delivery was a result of disappointing overall M&S performance and so only target achievement noted. **5%**	**Costs:** Cost savings target for the year were achieved. A future cost savings programme was also initiated, but not all project milestones and deliverables achieved within agreed timelines. **5%**	£0k **/ £1.18m** Overall % of Salary (200% max) 0%

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 2016/17. The face value of each award reflects half of the value shown for 2016/17 bonus payments in the single figure table.

FIGURE 11: DSBP AWARDS MADE IN 2016/17 (AUDITED)

	Basis of award	Face value of award[1] £000	End of deferral period
Steve Rowe	50% of bonus	£300	23/06/2020
Patrick Bousquet-Chavanne	50% of bonus	£229	23/06/2020[2]
Helen Weir	50% of bonus	£248	23/06/2020[2]

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 £3.433, being the average share price between 16 June 2017 and 22 June 2017.
2. As previously reported, Helen Weir left M&S on 31 March 2018. Patrick Bousquet Chavanne will leave the business on 31 May 2018. In line with our remuneration policy, all deferred bonus awards, including those above, will vest early upon leaving. See Figure 24 for more information. Full leaving arrangements are detailed on page 59.

ANNUAL BONUS SCHEME FOR 2018/19

During the year, the Committee reviewed the 2018/19 Scheme, considering the five-year transformation programme, 'Making M&S Special Again' and bonus arrangements elsewhere in the business. It determined that the structure of the 2017/18 Scheme remained broadly appropriate, with some necessary minor amendments to further align the Scheme with the pillars of transformation outlined elsewhere in this report and with bonus arrangements in the organisation. The 2018/19 Scheme is designed to focus on restoring the business to profitable growth with an emphasis not only on profits but also other key financial areas which drive this transformation journey.

Performance will be again focused on Group PBT before adjusting items (PBT) (70%) with individual measures set against key areas of delivery of the transformation plan which are deemed most critical to the future sustainable success of M&S.

For 2018/19, individual performance will again be measured independently of PBT performance, but, mirroring arrangements elsewhere in the business, no individual element may be earned until the threshold needed to secure payment under the corporate element is similarly achieved.

As illustrated below, 70% of awards will once again be measured against PBT under the corporate element. The remaining 30% of the bonus will be measured against a scorecard of individual objectives. The individual element of the Scheme will comprise of a number of measures identified as the measurable key priorities required to drive the continued transformation of M&S.

For the CEO, the measures within the individual scorecard will focus on the building and bedding-in of a strong new management team, improvements in M&S's online sales and fulfilment capability, supply chain improvements and the successful evolution of the Sparks loyalty programme.

For the CFO, the scorecard measures will focus on helping to deliver the financial plan of the business, with an emphasis on M&S's operating costs, and control of capital costs and expenditure across the business. In addition, in this first year with M&S, Humphrey's objectives will also include a review of the capabilities and controls within his teams with a strong focus on talent management and succession planning.

The performance targets for the 2018/19 Scheme 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, in its absolute discretion, may use its judgement to adjust outcomes to ensure that any payments made reflect overall business and individual performance during the year.

Achievement against areas such as Plan A, M&S's ecological and ethical plan for creating long-term sustainable business value, and delivery of the pillars of transformation will also inform the Committee's decision making when approving final payments for 2018/19.

FIGURE 12: ANNUAL BONUS SCHEME TARGETS 2018/19

	CORPORATE TARGETS	INDIVIDUAL OBJECTIVES	
	Group PBT before adjusting items (PBT)	Scorecard of Individual Measures	
Director	% bonus	% bonus	Measure
Steve Rowe	70%	30%	Success of new management team Online capabilities Supply chain Evolution of Sparks
Humphrey Singer	70%	30%	Operating costs Control of capital costs and expenditure Talent review Review control environment

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 2017/18 (AUDITED)

As was reported last year, having considered the extent to which the long-term incentive framework remained relevant, the Committee determined that whilst the existing structural arrangements remained appropriate, during this period of transformation the business must continue to ensure a focus on returns to shareholders. As such, a Relative TSR (TSR) measure was introduced, forming one-third of performance conditions for PSP awards.

TSR is 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 14 for details of these companies).

The remainder of the award is measured equally against Adjusted EPS (EPS) and Average ROCE. This balance of measures has been designed to ensure an equal focus on all three performance metrics.

As was reported last year, each executive director was granted an award of conditional shares of 250% of salary. The grant was made on 14 August 2017. In line with policy, awards will vest three years after the date of grant, to the extent that the performance conditions are met, and must then be held for a further two years.

Consistent with previous years, 20% of awards will vest for threshold performance increasing to 100% on a straight-line basis between threshold and maximum performance. Detailed targets can be seen in Figure 13.

FIGURE 13: PERFORMANCE CONDITIONS FOR PSP AWARDS MADE IN 2017/18 (AUDITED)

	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 14: TSR COMPARATOR GROUP 2017/18 AND 2018/19 AWARD (AUDITED)

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

FIGURE 15: PSP AWARDS MADE IN 2017/18 (AUDITED)

	Basis of award % of salary	Face value of award £000	End of performance period	Vesting date
Steve Rowe	250%	2,025	28/03/2020	14/08/2020
Patrick Bousquet-Chavanne	250%	1,365	28/03/2020	14/08/2020[1]
Helen Weir	250%	1,475	28/03/2020	14/08/2020[1]

1. As previously reported, Helen Weir left M&S on 31 March 2018. Patrick Bousquet Chavanne will leave the business on 31 May 2018. In line with the Performance Share Plan Rules, PSP awards made in 2017/18 will lapse in full upon leaving the company. See Figure 24 for more information. Full leaving arrangements are detailed on page 59.

When calculating the face value of awards to be granted, the number of 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 £3.297, being the average share price between 7 August 2017 and 11 August 2017.

PERFORMANCE SHARE PLAN (PSP) CONTINUED

FIGURE 16: PSP AWARDS VESTING IN 2017/18 (AUDITED)

For directors in receipt of PSP awards granted in 2015, the awards will vest in June 2018 based on three-year performance over the period to 31 March 2018. Performance has been assessed and it has been determined that 8.2% of the total award will vest.

Details of performance against the specific targets set are shown in the table below.

The total vesting values shown below directly correspond to the figure included in the single figure table on page 50.

			Financial strategic scorecard				
	Annualised adjusted EPS growth[1] (%)	Average ROCE (%)	International cash sales growth[1] (%)	M&S.com cash sales growth[2] (%)	Clothing & Home gross margin growth (bps)	Free cashflow growth[3] (£m)	Total vesting % of award
2015/16 award	50% of award	20% of award	7.5% of award	7.5% of award	7.5% of award	7.5% of award	
Threshold performance	5.0%	15.0%	5.0%	11.0%	350bps	£1,350m	
Maximum performance	12.0%	16.5%	15.0%	18.0%	550bps	£1,650m	
Actual performance achieved	-5.6%	14.2%	-0.6%	10.6%	396bps	£1,542m	
Percentage of maximum achieved	0%	0%	0%	0%	2.9%	5.3%	**8.2%**

1. Excluding M&S.com/including Republic of Ireland.
2. Ex VAT, post returns.
3. Pre-dividends, enhanced shareholder returns and strategic options.

FIGURE 17: VESTING VALUE OF AWARDS VESTING IN 2017/18 (AUDITED)

	On grant		At the end of performance period (31 March 2018)		
	Number of shares granted	% of salary granted	Number of shares vesting	Number of shares lapsing	Total vesting of award £000
Steve Rowe	260,826	250%	21,387	239,439	**£76**
Patrick Bousquet-Chavanne	255,905	250%	19,818	236,087	**£70**
Helen Weir	276,527	250%	20,155	256,372	**£72**

Total vesting values are based on a share price of £2.94 (the average share price from 2 January 2018 to 29 March 2018) plus a dividend equivalent of £0.61 per share. To provide an accurate indication of the total vesting value for Helen Weir and Patrick Bousquet-Chavanne, the column detailing the number of shares lapsing takes into consideration shares lapsing due to the pro-ration applied to their awards on leaving M&S. Further details on the treatment of share awards upon leaving can be found on page 59.

PSP AWARDS TO BE MADE IN 2018/19

During the year, the Committee reviewed the long-term incentive framework at M&S, assessing the extent to which it remained appropriate. After consideration, it was decided that the current structural arrangements continue to be aligned to the focus on maximising shareholder value by restoring the business to profitable growth. The three performance measures used in the 2017 PSP award, Relative TSR (TSR), Adjusted EPS (EPS) and Average ROCE (ROCE), are still considered to be the key drivers to deliver these core priorities. In line with last year's award, these measures will be equally balanced to ensure an appropriate focus on all three metrics.

TSR will once again be measured against the bespoke group of 15 companies taken from the FTSE 350 General and Food & Drug Retailers indices. This group was reviewed during the year to ensure the constituents remain appropriately aligned to M&S's business operations to best reflect the value of shareholder's investment in M&S over the respective performance period. These companies are listed in Figure 14 overleaf.

Targets set for the 2018 PSP award are in line with those set for the 2017 award, and M&S's financial plan, reflecting the continued journey of the programme to Make M&S Special Again. Targets were reviewed and are considered to remain a balance of achievable but stretching. Achievement of maximum vesting would be indicative of exceptional performance against these metrics.

The Committee is mindful of the need to strongly incentivise the most senior leaders of M&S. Following careful consideration and discussion, for the 2018 PSP a grant of 250% of salary was approved. It was agreed that this award level would represent a clear signal to the executive directors that whilst there is hard work ahead as we move along the transformation journey to make M&S special again, truly exceptional performance will be rewarded.

FIGURE 18: PERFORMANCE CONDITIONS FOR PSP AWARDS TO BE MADE IN 2018/19

	Adjusted EPS in 2020/21	Average ROCE (2018/19 – 2020/21) (%)	Relative TSR
2018/19 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

EXECUTIVE DIRECTORS' REMUNERATION

FIGURE 19: DIRECTORS' SHAREHOLDINGS (AUDITED)

The table below sets out the total number of shares held at 31 March 2018 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 22 May 2018. No director had an interest in any of the Company's subsidiaries at the statutory end of the year.

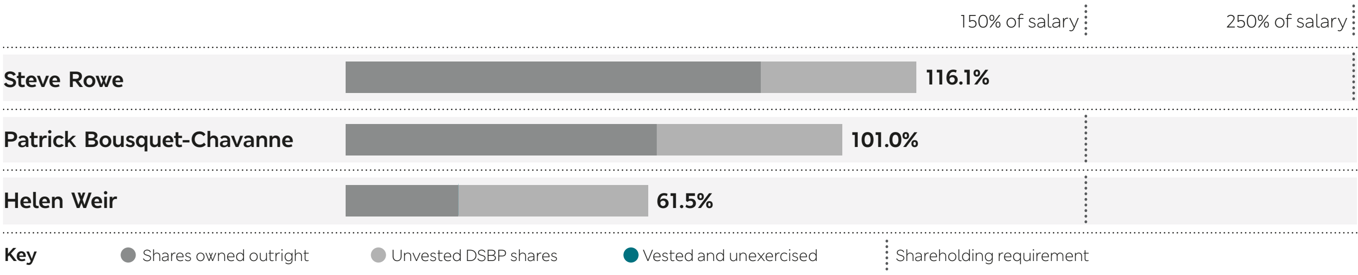
		Unvested		
		With performance conditions	Without performance conditions	
	Shares owned outright	Performance Share Plan	Deferred Share Bonus Plan	Vested but unexercised shares
Steve Rowe	253,408	1,430,660	179,231	0
Patrick Bousquet-Chavanne	123,098	1,044,459	138,459	0
Helen Weir	50,000	1,128,628	159,238	0

FIGURE 20: 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 all directors below Board level.

The chart below shows the extent to which each executive director has met their target shareholding as at 31 March 2018. 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 99 and 100.

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 31 March 2018 is as follows:

FIGURE 21: ALL SHARE PLANS

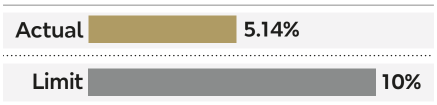


FIGURE 22: EXECUTIVE SHARE PLANS

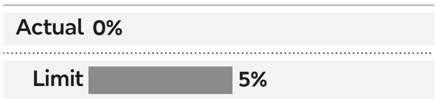


FIGURE 23: EXECUTIVE DIRECTORS' INTERESTS IN THE COMPANY'S SHARE SCHEMES (AUDITED)

	Maximum receivable at 2 April 2017	Awarded during the year	Exercised during the year	Lapsed during the year	Maximum receivable at 31 March 2018 (or date of retirement)
Steve Rowe					
Performance Share Plan	1,116,809	614,194	0	300,343	**1,430,660**
Deferred Share Bonus Plan	91,932	87,299	0	0	**179,231**
SAYE	5,683	0	0	2,222	**3,461**
Total	1,214,424	701,493	0	302,565	**1,613,352**
Patrick Bousquet-Chavanne					
Performance Share Plan	930,790	414,012	0	300,343	**1,044,459**
Deferred Share Bonus Plan	71,661	66,798	0	0	**138,459**
SAYE	2,222	3,448	0	2,222	**3,448**
Total	1,004,673	484,258	0	302,565	**1,186,366**
Helen Weir					
Performance Share Plan	681,252	447,376	0	0	**1,128,628**
Deferred Share Bonus Plan	87,057	72,181	0	0	**159,238**
SAYE	3,461	0	0	0	**3,461**
Total	771,770	519,557	0	0	**1,291,327**

No directors exercised awards during the financial year 2017/18 and so there are no aggregate gains to report. The market price of the shares at the end of the financial year was 270.2p; the highest and lowest share price during the financial year were 395.5p and 265.3p respectively.

Helen Weir retired from the Board and left the Company on 31 March 2018. Patrick Bousquet-Chavanne retired from the Board on 18 April 2018 and will leave the Company on 31 May 2018. Details of their leaving arrangements are set out on page 59. For both outgoing executive directors, the impact of their departure on their share awards falls within the 2018/19 financial year. This impact is therefore not reflected in Figure 23 above.

However, to provide an accurate and transparent overview of directors' interests in discretionary share awards, Figure 24 below shows the time horizons of outstanding discretionary share awards for all directors serving on the Board during the year, including Helen Weir and Patrick Bousquet-Chavanne. As can be seen, all directors continue to hold significant interests in M&S's performance over the forthcoming years.

FIGURE 24: VESTING SCHEDULE OF EXECUTIVE DIRECTORS' OUTSTANDING DISCRETIONARY SHARE AWARDS

		Maximum receivable at 31 March 2018 (all discretionary schemes)	2018/19		2019/20		2020/21	
			Maximum Receivable	Lapsed	Maximum Receivable	Lapsed	Maximum Receivable	Lapsed
Steve Rowe	Performance Share Plan	1,430,660	21,387	(239,439)	555,640	–	614,194	–
	Deferred Share Bonus Plan	179,321	59,556	–	32,376	–	87,299	–
Patrick Bousquet-Chavanne	Performance Share Plan	1,044,459	19,819	(236,087)	176,867	(197,675)	0	(414,012)
	Deferred Share Bonus Plan	138,459	138,459	–	–	–	–	–
Helen Weir	Performance Share Plan	1,128,628	20,155	(256,372)	168,635	(236,090)	0	(447,376)
	Deferred Share Bonus Plan	159,238	159,238	–	–	–	–	–

As reported on page 55, the 2015 PSP awards included within the totals shown in Figure 23 will vest at 8.2% in July 2018 for all executive directors. This has been reflected above in the 2018/19 'Lapsed' column.

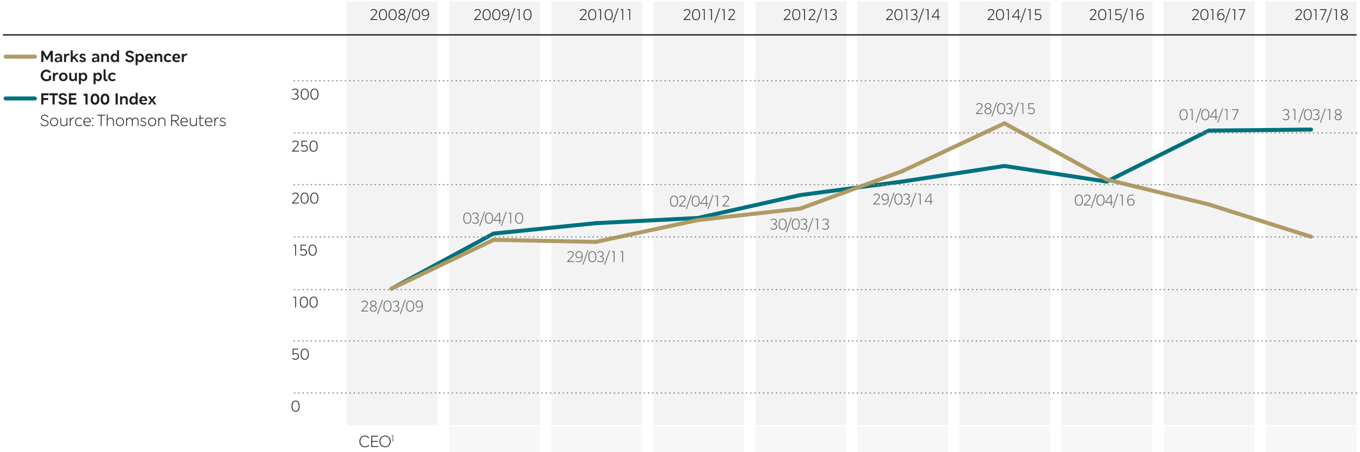
As detailed earlier in this report, upon leaving M&S the awards held by Helen Weir and Patrick Bousquet-Chavanne under the Deferred Bonus Scheme vest in full following their departure from the Company. This has been reflected above in the 2018/19 'Maximum Receivable' column. Outstanding awards held by Helen and Patrick under the 2015 and 2016 PSP are pro-rated for time held upon leaving. This is reflected by year of vest in the applicable 'Lapsed' column. In line with the Plan rules, upon leaving PSP awards granted in 2017 lapse in full. This is reflected above in the 2020/21 'Lapsed' column.

REMUNERATION REPORT CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 25: PERFORMANCE AND CEO REMUNERATION COMPARISON

This graph illustrates the Company's performance against the FTSE 100 over the past nine 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 nine financial years.



	CEO[1]	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
CEO single figure of remuneration (£000)	Steve Rowe	–	–	–	–	–	–	–	1,642	1,120
	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%	0.00%
	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%	8.20%
	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 26: 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.

	% change 2016/17 – 2017/18		
	Base salary	Benefits	Annual bonus
CEO (Steve Rowe)	0%	1.2%	-100%
UK employees (average per FTE)	8.4%	1.5%	-100%

The 8.4% percentage change in base salary for UK employees is a consequence of a review of the total reward offering to customer assistants which included a significant increase to base rate pay, effective April 2017.

This review also included the integration of some historic allowances into base pay. The comparator data for 2016/17 UK employee salaries has been adjusted to also include such allowances so as to provide an accurate year-on-year comparison.

FIGURE 27: 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 buy back.

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

	2016/17 £m	**2017/18 £m**	% change
Total employee pay	1,552.6	**1,578.9**	1.7%
Total returns to shareholders[1]	377.5	**303.4**	-19.6%
Group PBT before adjusting items	613.8	**580.9**	-5.4%

1. Total returns to shareholders for 2016/17 is inclusive of special dividend.

FIGURE 28: 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
Humphrey Singer	July 2018	12 months/6 months

CHANGES TO EXECUTIVE MEMBERSHIP OF THE BOARD DURING 2017/18

DIRECTORS APPOINTED TO THE BOARD

There were no directors appointed to the Board during the 2017/18 financial year.

PAYMENTS FOR THE LOSS OF OFFICE (audited)

Helen Weir left M&S on 31 March 2018. Remuneration terms on leaving were in line with the approved Remuneration Policy. As was reported at the time, Helen will receive salary and benefits, including pension, by way of phased monthly payments (subject to mitigation) from 1 April until 8 November 2018, reflecting the remaining period of contractual notice. The Committee determined good leaver treatment in line with the plan rules and therefore her unvested nil-cost options granted under the Deferred Share Bonus Plan vested in full on leaving. Unvested nil-cost options, awarded under the 2015 and 2016 PSP, were time pro-rated to March 2018 and will vest, to the extent the performance conditions are met, on the normal vesting date. The PSP award made in 2017 lapsed in full on leaving in accordance with the Plan rules.

As detailed earlier in this report, 8.2% of PSP awards granted in 2015 will vest in July 2018. Helen has one further unvested PSP award, granted in 2016. To the extent that performance conditions are met, the subsequent vesting of this award will be reported in next year's report.

PAYMENTS TO PAST DIRECTORS (audited)

Laura Wade-Gery retired from the Board on 30 September 2016. Laura had one more outstanding award under the Performance Share Plan. In accordance with the rules of the Performance Share Plan, 8.2% of her 2015 award (8,496 shares) will vest in July 2018. This is estimated to be circa £30,200, based on the average share price between 2 January 2018 and 29 March 2018, including dividend equivalents. Laura has no further outstanding awards.

Marc Bolland retired from the Board on 2 April 2016 and had two outstanding awards under the Performance Share Plan. In accordance with the rules of the Performance Share Plan, 8.2% of his 2015 award (17,695 shares) will vest in July 2018. This is estimated to be circa £62,899, based on the average share price between 2 January 2018 and 29 March 2018, including dividend equivalents. Marc has no further outstanding awards.

CHANGES TO THE BOARD IN 2018/19

Humphrey Singer is expected to join the Board in July 2018 as Chief Finance Officer. His remuneration is in line with the approved Recruitment Policy detailed on page 47. As has already been disclosed, on appointment Humphrey's basic annual salary will be £600,000, he will receive neither a car allowance nor a pension cash allowance. The rest of Humphrey's incentive arrangements will be aligned with the other executive directors. He is eligible for a PSP grant in July 2018 in accordance with the Annual Remuneration Policy (see page 55 for further details). No share awards have been granted to Humphrey in relation to his appointment.

Patrick Bousquet-Chavanne retired from the Board on 18 April 2018 and will leave M&S on 31 May 2018. Remuneration terms on leaving were in line with the approved Remuneration Policy. As was reported at the time, Patrick will receive salary and benefits, including pension, by way of phased monthly payments (subject to mitigation) from 1 June 2018 until 28 February 2019. It has been announced that Patrick has subsequently secured alternative employment and so these monthly payments will cease once his new employment commences. The Committee determined good leaver treatment in line with the plan rules and therefore his unvested conditional shares granted under the Deferred Share Bonus Plan will vest in full on leaving. Unvested conditional shares, awarded under the 2015 and 2016 PSP, will be time pro-rated to 31 May 2018 and will vest, to the extent the performance conditions are met, on the normal vesting date. The PSP award made in 2017 will lapse in full on leaving in accordance with the Plan rules.

As detailed earlier in this report, 8.2% of PSP awards granted in 2015 will vest in July 2018. Patrick has one further unvested PSP award, granted in 2016. To the extent that performance conditions are met, the subsequent vesting of this award will be reported in next year's report.

FIGURE 29: 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 2 April 2017 to 31 March 2018.

Director	Company	Fee 000
Patrick Bousquet-Chavanne	Brown-Forman	$641
Helen Weir	Rugby Football Union	£30

REMUNERATION REPORT CONTINUED

NON-EXECUTIVE DIRECTORS' REMUNERATION

FIGURE 30: 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 and Board Chairman for 2017/18 and 2016/17.

During the year, the fees for all non-executive directors were reviewed. Taking into account the relevant market data and salary freezes for senior managers within M&S for July 2018, no increase to fees was awarded. Fee levels will be reviewed again during 2018/19.

Robert Swannell retired from the Board on 1 September 2017 and Miranda Curtis retired from the Board on 1 February 2018. As such, the payments shown in the table relate to those made until these respective dates.

Fees to Archie Norman are from his date of appointment to M&S on 1 September 2017.

Director	Year	Basic fees £000	Additional fees £000	Benefits £000	Total £000
Archie Norman (from 1 September 2017)	2017/18	41	309	0	**350**
	2016/17	0	0	0	0
Robert Swannell (to 1 September 2017)	2017/18	29	159	9	**197**
	2016/17	70	380	21	471
Vindi Banga	2017/18	70	30	0	**100**
	2016/17	70	30	0	100
Alison Brittain	2017/18	70	0	0	**70**
	2016/17	70	0	0	70
Miranda Curtis (to 1 February 2018)	2017/18	58	0	0	**58**
	2016/17	70	0	0	70
Andrew Fisher	2017/18	70	0	0	**70**
	2016/17	70	0	0	70
Andy Halford	2017/18	70	15	0	**85**
	2016/17	70	15	0	85
Richard Solomons	2017/18	70	0	0	**70**
	2016/17	70	0	0	70

FIGURE 31: 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 31 March 2018 (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 22 May 2018.

Director	Number of shares held
Archie Norman	43,000
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 32: 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
Archie Norman	01/09/2017	6 months/6 months
Vindi Banga	01/09/2011	3 months/3 months
Alison Brittain	01/01/2014	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 DIRECTOR CHANGES TO THE BOARD DURING 2017/18

DIRECTORS APPOINTED TO THE BOARD

Archie Norman joined 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 49, Archie receives the standard non-executive director fee plus an additional fee as the Board Chairman. Archie's total annual fee is £600,000.

DIRECTORS RETIRING FROM THE BOARD

Robert Swannell retired from the Board on 1 September 2017. There were no payments for loss of office payable to Robert.

Miranda Curtis retired from the Board on 1 February 2018. There were no payments for loss of office payable to Miranda.

CHANGES TO THE BOARD 2018/19

Katie Bickerstaffe and **Pip McCrostie** will join the Board as non-executive directors, and members of the Nomination Committee, on 10 July 2018. Both Katie and Pip will receive the standard annual non-executive director fee of £70,000. In addition to being appointed to the Nomination Committee, Katie will join the Remuneration Committee and Pip will become a member of the Audit Committee.

REMUNERATION COMMITTEE

REMUNERATION COMMITTEE REMIT

During the year, the Remuneration Committee, under the chairmanship of Vindi Banga, agreed that the publication of the proposed revisions to the UK Corporate Governance Code by the Financial Reporting Council, along with the appointment of Archie Norman to Chairman of the Board and member of the Remuneration Committee, provided an excellent opportunity to review the Committee's Terms of Reference. Following a thorough review of the existing remit, new broader Terms of Reference were agreed.

The role of the Committee continues to be ensuring that the Senior Executive Group are appropriately rewarded, through making recommendations regarding senior remuneration strategy and framework to the Board. Reflecting market direction and anticipating incoming regulation, the revised Terms of Reference further extend the Committee's remit to include greater responsibility for demonstrating how pay and incentives align across the Company, along with defined mechanisms for workforce engagement. Further demonstrating the Committee's commitment to meaningful and transparent engagement on pay practices in the wider workforce, the chair of M&S's employee representative body will be invited to attend and contribute to a Committee meeting each year. The broadened remit also includes oversight of key people policy areas such as performance management, diversity and inclusion, and gender pay. The full Terms of Reference for the Committee can be found on the Company's website at **marksandspencer.com/thecompany**.

KEY RESPONSIBILITIES

- Setting a strategy that ensures the most talented leaders are recruited, retained and motivated to deliver results.
- Considering the appropriateness of the senior remuneration framework when reviewed against arrangements throughout the rest of the organisation.
- Reviewing the effectiveness of the Group remuneration frameworks with regards to their impact.
- Determining the terms of employment and remuneration for the Senior Executive Group, including recruitment and termination arrangements.
- Approving the design, targets and total payments/awards for performance-related pay schemes operated by the Group, seeking shareholder approval where necessary.
- Assessing the appropriateness and subsequent achievement of performance targets relating to any share-based incentive plan for the Senior Executive Group.
- Receiving direct feedback from the Group's employee representative body, employee engagement surveys and management reports to ensure employee views on Group culture, including remuneration strategy, are considered.
- Reviewing initiatives relating to diversity and inclusion and reviewing and approving the Group's diversity policy.
- Reviewing and noting employee-related external reporting, including gender pay reporting.

REMUNERATION COMMITTEE AGENDA FOR 2017/18

REGULAR ITEMS

Pay arrangements

- In line with Company policies, annual review of base salaries and benefits of the Senior Executive Group and approval of any salary increase.
- Review of, and agreement to, remuneration packages for new members of the Senior Executive Group and termination arrangements of outgoing members.
- Review of updated pay arrangements across the Group.

Annual Bonus Scheme

- Review of achievement of Group PBT before adjusting items against 2017/18 Annual Bonus Scheme targets.
- Approval to apply discretion to reduce bonus payments to zero.
- Review of achievement of the Senior Executive Group against 2017/18 individual objectives.
- Review principles of 2017/18 bonus allocation across the Group.
- Review of the structural design, measures and approach to targets for the 2018/19 Annual Bonus Scheme for the Senior Executive Group and the wider workforce.

Performance Share Plan (PSP)

- Approval of the measures and targets for the PSP awards granted during the year and in the next year for the Senior Executive Group.
- Review and approval of awards made to executive and operating committee directors under the 2018 PSP, taking into account the total value of all awards made under this plan.
- Regular review of all in-flight performance plans against targets.
- Approval of vesting level of the 2015 PSP awards including clear articulation of the Committee's consideration for vesting and payment levels to executive directors and senior managers.
- Consideration and debate of the senior remuneration framework in the context of external guidance and transformation plan.

Governance and external market

- Approval of the Directors' Remuneration Report for 2017/18 and review of the AGM voting outcome for the 2016/17 Report.
- Review of Committee performance in 2017/18.
- Review and update of Committee Terms of Reference.
- Approval of the renewal of the M&S Save As You Earn Scheme, with final approval given by shareholders at the 2017 AGM.
- Consideration of external market developments and best practice in remuneration including the proposed revisions to the UK Corporate Governance Code.
- Assessment of the external environment surrounding the Company's current remuneration arrangements.
- Consideration of remuneration arrangements for the wider workforce, including review of gender pay reporting outcomes.

REMUNERATION COMMITTEE ACTION PLAN 2018/19

- Ensure the principles of the revised Terms of Reference and broader remit of the Committee are embedded within Committee oversight.
- Ensure the continued strategic alignment of the directors' incentive arrangements to support and drive M&S's transformation.
- 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, including reporting on issues such as gender pay.
- Review the effectiveness and transparency of remuneration reporting.

REMUNERATION REPORT CONTINUED

REMUNERATION COMMITTEE CONTINUED

FIGURE 33: REMUNERATION COMMITTEE MEETINGS

The table opposite details the independent non-executive directors that were members of the Committee during 2017/18.

MEMBER	Member since	Maximum possible meetings	Number of meetings attended	% of meetings attended
Vindi Banga (Chairman)	1 September 2011	3	3	100%
Archie Norman	3 November 2017	1	1	100%
Robert Swannell until 1 September 2017	1 March 2015	2	2	100%
Miranda Curtis until 1 February 2018	1 February 2012	3	3	100%
Richard Solomons	21 July 2015	3	3	100%

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 £38,700 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, FIT Remuneration Consultants and Willis Towers Watson.

REMUNERATION COMMITTEE STAKEHOLDER AND SHAREHOLDER 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 either during these discussions or subsequently.

The Committee is committed to a continuous, open and transparent dialogue with shareholders on the issue of executive remuneration. Although the Committee did not formally consult with shareholders in 2017/18, numerous conversations were held on the subject of executive remuneration, including the appointment of Archie Norman to the position of Chairman.

SHAREHOLDER SUPPORT FOR THE 2016/17 DIRECTORS' REMUNERATION REPORT

At the Annual General Meeting on 11 July 2017, 92.01% of shareholders voted in favour of approving the Directors' Remuneration Report for 2016/17. In addition, 99.08% of shareholders voted in favour of the Remuneration Policy. 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 2016/17 Directors' Remuneration Report and Remuneration Policy.

FIGURE 34: VOTING OUTCOMES FOR 2016/17 REMUNERATION REPORT AND REMUNERATION POLICY

	Votes for	% Votes for	Votes against	% Votes against	Votes withheld
Remuneration Report	942,558,230	92.01%	81,901,767	7.99%	7,972,863
Remuneration Policy	1,020,561,621	99.08%	9,498,526	0.92%	2,368,960

APPROVED BY THE BOARD

VINDI BANGA CHAIRMAN OF THE REMUNERATION COMMITTEE

London, 22 May 2018

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").

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 31 March 2018, comprises pages 25-67 and pages 130-131 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 1-24, as the Board considers them to be of strategic importance. Specifically, these are:

- Future business developments (throughout the Strategic Report).
- Risk management on pages 20-21.
- Details of branches operated by the Company on pages 6-9.

Information relating to financial instruments can be found on pages 105-111.

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

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.

BOARD OF DIRECTORS

The membership of the Board and biographical details of the directors are provided on pages 26 and 27. 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 57 and 60. Options granted to directors under the Save As You Earn (SAYE) and Executive Share Option Schemes are shown on page 57. Further information regarding employee share option schemes is provided in note 13 to the financial statements.

Name	Role	Effective date of appointment/ departure
Departures		
Patrick Bousquet-Chavanne	Executive Director	18 April 2018
Helen Weir	Executive Director	31 March 2018
Miranda Curtis	Non-Executive Director	1 February 2018
Robert Swannell	Chairman	1 September 2017
Appointments		
Archie Norman	Chairman	1 September 2017
Proposed Appointments		
Humphrey Singer	Executive Director	Effective 10 July 2018
Katie Bickerstaffe	Non-Executive Director	Effective 10 July 2018
Pip McCrostie	Non-Executive Director	Effective 10 July 2018

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 where they will stand for annual election.

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 provides 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 31 March 2018 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. 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 31 March 2018 for the benefit of the Trustees of the Marks & Spencer Pension Scheme, both in the UK and the Republic of Ireland.

OTHER DISCLOSURES CONTINUED

CORPORATE GOVERNANCE STATEMENT

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 internally facilitated performance evaluation of the Board and its Committees was undertaken during the year in accordance with the requirements of the Corporate Governance Code, following an external evaluation undertaken the previous 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 2017/18.
- **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 2017/18.
- **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.

PROFIT AND DIVIDENDS

The profit for the financial year, after taxation, amounts to £29.1m (last year £115.7m). The directors have declared dividends as follows:

Ordinary shares	£m
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)	£193.1m
Total dividend of 18.7p per share for 2017/18 (last year 18.7p per share)	£303.4m

Subject to shareholder approval at this year's AGM, the final ordinary dividend will be paid on 13 July 2018 to shareholders whose names were on the Register of Members at the close of business on 1 June 2018.

SHARE CAPITAL

The Company's issued ordinary share capital as at 31 March 2018 comprised a single class of ordinary share. Each share carries the right to one vote at general meetings of the Company.

During the period, 29,500 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 260p and 369p.

Details of movements in the Company's issued share capital can be found on page 112 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.

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 31 March 2018, 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
Schroders plc	1,624,741,572	5.549	Indirect Interest (5.547%), CFD (0.001%)
Majedie Asset Management Limited	81,070,667	4.99	Direct Interest
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

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 2017 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 31 March 2018.

This standard authority is renewable annually; the directors will seek to renew this authority at the 2018 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 2017 AGM to allot relevant securities up to a nominal amount of £135,394,136. This authority will apply until the conclusion of the 2018 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 £135,397,323 and (ii) comprising equity securities up to a nominal amount of £270,794,647 (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 2019 or, if earlier, on 1 October 2019.

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 £20,309,599. 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.

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 $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 practicable (while not being required to do anything that would breach such a third party arrangement).
- Where a third-party arrangement is so terminated, or does not exist, HSBC has the exclusive right to negotiate proposed terms for the offer and sale, of financial services products to the existing customers of the new controller by HSBC on an exclusive basis.
- 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 may, depending on the nature of the re-branding exercise, have the right (exercisable at HSBC's election) to terminate 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.

OTHER DISCLOSURES CONTINUED

COLLEAGUE INVOLVEMENT

We remain committed to colleague involvement throughout the business. Colleagues are kept well informed of the performance and strategy of the Group. Examples of colleague involvement and engagement are highlighted throughout this Annual Report and specifically on page 9.

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 23,000 colleagues currently participate in ShareSave, the Company's Save As You Earn Scheme. Full details of all schemes are given on pages 99 and 100.

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.

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, health condition, 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.

EMPLOYEES WITH DISABILITIES

The Company is clear in its policy that people with health conditions 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.

RESEARCH & DEVELOPMENT

Research and innovation remain key to our Food offer and the development of improved product and fabric in Clothing & Home. Further information is provided in the Plan A report, available online.

GROCERIES SUPPLY CODE OF PRACTICE

The Groceries (Supply Chain Practices) Market Investigation Order 2009 (the "Order") and The Groceries Supply Code of Practice (the "Code") impose obligations on M&S relating to relationships with its suppliers of groceries. Under the Order and Code, 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 ("GCA").

M&S submitted its report, covering the period from 2 April 2017 to 31 March 2018 to the Audit Committee on 17 May 2018.

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. There have been eight instances in which suppliers have either alleged a breach of the Code or made an express or implicit reference to potential non-compliance with the Code. M&S does not believe that any breaches took place and has worked with suppliers to address the issues raised.

A detailed summary of that compliance report is available on our website.

POLITICAL DONATIONS

The Company did not make any political donations or incur any political expenditure during the year ended 31 March 2018. 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.

TOTAL GLOBAL M&S GREENHOUSE GAS EMISSIONS 2017/18

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, see the 2018 Plan A Report.

	2017/18 000 tonnes	2016/17 000 tonnes	% change
Direct emissions (scope 1)	182	246	-26
Indirect emissions from energy (scope 2)	248	394	-37
Total gross/location-based emissions (scope 1 and 2)	**430**	**640**	**-33**
Carbon intensity measure (per 1,000 sq ft of salesfloor)	**23**	**40**	**-42**
Green tariffs and bio-methane procured	273	0	–
Remaining market-based emissions	**157**	**640**	**-75**
Carbon offsets	157	0	–
Total net operational emissions	**0**	**640**	**–**

Emissions are from operationally controlled activities in accordance WRI/WBCSD GHG Reporting Protocols (Revised edition) and 2015 Scope 2 Guidance using 2017 BEIS conversion factors. As these emissions account for less than 10% of M&S's total carbon footprint we also engage with suppliers to address the most significant sources. M&S has an approved Science Based Target for reducing emissions.

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 - 14 as well as the Group's principal risks and uncertainties as set out on pages 22 - 24.

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 March 2021. 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 p21

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 2018 AGM.

ANNUAL GENERAL MEETING

The AGM of Marks and Spencer Group plc will be held at Wembley Stadium, Wembley, London on 10 July 2018 at 11am. The Notice of Meeting is given, together with explanatory notes, on pages 122 - 131.

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.

The Board requested that the Audit Committee review the Annual Report and provide its opinion on whether the report is fair, balanced and understandable. The Audit Committee's opinion is on page 39.

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 (IFRS) 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 IFRS (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 26 and 27, 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 AUDITOR

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 auditor is 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 auditor is aware of that information.

The Directors' Report was approved by a duly authorised committee of the Board of Directors on 22 May 2018 and signed on its behalf by

AMANDA MELLOR GROUP SECRETARY
London, 22 May 2018

INDEPENDENT AUDITOR'S REPORT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

IN OUR OPINION:

the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 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 (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);

the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Marks and Spencer Group plc (the 'parent company') and its subsidiaries (the 'group') which 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; and
- the related notes 1 to 28 and C1 to C6.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

SUMMARY OF OUR AUDIT APPROACH

KEY AUDIT MATTERS

The key audit matters that we identified in the current year were:

- Reporting financial performance;
- Accounting for the UK store rationalisation programme;
- Impairment of UK store assets;
- UK Clothing & Home inventory provision;
- Retirement benefits; and
- Manual adjustments to reported revenue.

Within this report

Any new key audit matters are identified with ⌃

Any key audit matters which are the same as the prior year identified with »

MATERIALITY

The materiality that we used for the group financial statements was £24.5 million which was determined on the basis of 5% adjusted profit before tax excluding certain items based on their nature. We capped materiality to £24.5 million so that it was not higher than the prior period given the group's trading performance in the current period.

SCOPING

We performed a full scope audit on three components of the business (UK, India and Ireland) representing 97% of the Group's revenue, 99% of the Group's adjusted profit before tax, 95% of the Group's profit before tax and 86% of the Group's net assets.

SIGNIFICANT CHANGES IN OUR APPROACH

Our audit approach is consistent with the previous year, with the exception of:

- Accounting for the UK store rationalisation programme has been included as a new key audit matter due to the level of estimation uncertainty (as disclosed in Note 1) and the level of audit effort required in evaluating management's estimate;
- Exit costs of certain wholly owned international businesses has been removed as a key audit matter as the Group's international closure programme is substantially complete;
- Accounting for supplier rebates has been removed as a key audit matter due to the limited level of judgement; and
- In the current period India and Ireland were subject to full scope audits and France had specific audit work performed in respect of the remaining store closure provision. The change compared with the previous period reflects the reduction in scale of the group's owned international business.

CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

GOING CONCERN

We have reviewed 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 and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

PRINCIPAL RISKS AND VIABILITY STATEMENT

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 22-24 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 22 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; or
- the directors' explanation on page 21 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 are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

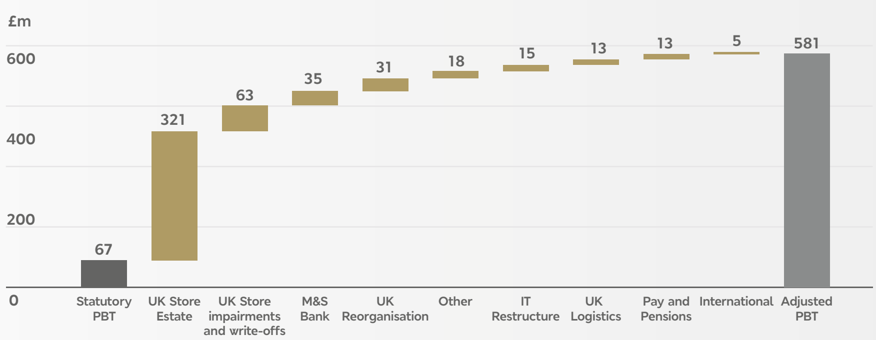
KEY AUDIT MATTER

1 REPORTING FINANCIAL PERFORMANCE

KEY AUDIT MATTER DESCRIPTION

The Group has reported adjusted profits of £581 million, which is derived from statutory profit before tax of £67 million and a number of adjustments for items which the company considers meet their definition of an adjusting item. Judgement is exercised by management in determining the classification of items as 'adjusting items'. This is a significant issue considered by the Audit Committee on page 38.

Explanations of each adjustment are set out in note 5 to the financial statements and are summarised in the graphic below:



In calculating adjusted profit, we consider that there is a risk of:

- items being included in the adjustments inappropriately, distorting the reported adjusted earnings; and
- items being omitted from the adjustments which are material, one-off or significant in nature which distort the reported adjusted earnings.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

For adjusted profits, we evaluated the appropriateness of the inclusion of items, both individually and in aggregate, within adjusting 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 a sample of 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 or value, but included within adjusted profit to determine whether these are not material either individually or in aggregate.
For all adjustments recorded in calculating profits before adjusting 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 adjusted profit, and the related disclosure of these items in the financial statements, are appropriate.

KEY AUDIT MATTERS CONTINUED

KEY AUDIT MATTER

2 ACCOUNTING FOR THE UK STORE RATIONALISATION PROGRAMME

KEY AUDIT MATTER DESCRIPTION

On 8 November 2017, as part of the Interim Results statement, the Group announced the acceleration of the UK store rationalisation programme, including closures, space reduction and relocations. At 31 March 2018, the Group had identified a number of stores for potential closure, space reduction or relocation, and recognised a charge of £321 million for impairments, accelerated depreciation and associated provisions. Further detail of the charge is set out in note 5. This is a significant issue considered by the Audit Committee on page 38.

For each of the stores expected to be impacted by the programme, the company prepared a discounted cash flow model to determine the required impairments and provisions to reflect the shortened economic lives of the store assets and, for certain stores, the closure of the store prior to lease expiry. Where the affected store has been formally approved or publicly announced, all associated restructuring provisions (including any lease exit and redundancy costs) have been recognised. Where the closure of the affected store has not been formally approved or publicly announced, impairment charges are recognised to the extent that the store's cash flows do not support the carrying value, with an onerous contract provision being recognised where appropriate.

We pinpointed our key audit matter to the following elements of accounting for the UK store rationalisation programme:

- The accuracy and completeness of the list of affected stores and anticipated closure dates;
- The appropriateness of specific assumptions in the discounted cash flow models, including sublet income, sublet lease incentives, void periods, freehold sales proceeds and store closure costs;
- The mechanical accuracy of the discounted cash flow models and integrity of source data (such as lease terms and rental values); and
- The accuracy and completeness of associated provisions, including provisions for dilapidations and strip out costs, onerous contracts for loss-making stores, and restructuring where closures have been publicly announced.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

We focused our audit work on assessing the company's store exit model and evaluating the appropriateness of the key assumptions used in calculating the charge of £321 million. As part of our audit procedures, we:

- Made inquiries of management and reviewed property board minutes to evaluate the accuracy and completeness of the store closure list, and considered the commercial rationale for exiting certain stores whilst excluding other poor performing stores from the store closure list;
- Inspected the minutes of Board meetings and relevant sub-committees;
- Inspected supporting documentation for each assumption in the store exit model which included lease agreements, agent valuations, surveyor plans and rent invoices;
- Evaluated the company's judgements for a sample of properties in consultation with retail real estate experts and with reference to benchmarked external data;
- Tested the mechanical accuracy of the cash flow models and other key calculations;
- Checked the integrity of lease data to original lease agreements for a sample of properties;
- Recalculated the provisions required for a sample of stores and checked the mechanical accuracy of provision calculations; and
- Evaluated the completeness of required provisions for a sample of stores based on the status of the store in the closure programme.

Key observations

We are satisfied with the company's estimate of the impairment charge but note that this is at the prudent end of our acceptable range. The disclosure of the closure provisions recorded in the financial statements is appropriate.

We have reported to the Audit Committee where improvements are required to key internal review controls over store closures and significant property transactions.

KEY AUDIT MATTERS CONTINUED

KEY AUDIT MATTER

3 IMPAIRMENT OF UK STORE ASSETS

KEY AUDIT MATTER DESCRIPTION

The Group held £2,979 million of UK store assets at 31 March 2018 in respect of stores not considered for closure in the UK store rationalisation programme. The company has undertaken an annual assessment of indicators of impairment in respect of these stores and has recognised an impairment charge in the year of £12 million. This is a significant issue considered by the Audit Committee on page 38.

As described in note 15 of the financial statements, the company has estimated the recoverable amount of store assets based on value in use calculations. These rely on certain assumptions and estimates of future trading performance which involve a high degree of estimation uncertainty (as disclosed in Note 1) particularly in light of current retail market conditions.

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;
- gross margin;
- store costs, including the impact of the National Living Wage; and
- discount rate.

The company considers 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 and Home inventories stock 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.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

We considered the appropriateness of the methodology applied by the company 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 the company and the level of impairments recorded in the year are appropriate.

INDEPENDENT AUDITOR'S REPORT CONTINUED

KEY AUDIT MATTERS CONTINUED

KEY AUDIT MATTER

4 UK CLOTHING & HOME INVENTORY PROVISION

KEY AUDIT MATTER DESCRIPTION

At 31 March 2018, the Group held UK Clothing & Home inventories of £591 million (2017: £541 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 and stock below cost based upon a detailed analysis of old season inventory and net realisable value below cost based upon plans for inventory to go into sale. We consider the assessment of inventory provisions within UK Clothing & Home to require the most judgement, with the risk increased due to recent trading performance and the increase in gross inventory. This is a significant issue considered by the Audit Committee on page 38.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

We obtained assurance over the appropriateness of the company's assumptions applied in calculating the value of the inventory provisions by:

- performing audit analytics on stock holding and movement data to identify product lines with indicators of low stock turn and post-period negative margin sales;
- assessing the validity, accuracy and completeness of the information used by management in computing the provision;
- verifying the mathematical accuracy and logic of the models underpinning the respective provisions;
- meeting with buyers to validate the assumptions applied by the company compared to the current purchasing strategy and ranging plans; and
- testing the validity and completeness of the stock flags and season codes applied to individual inventory items.

Key observations
The results of our testing were satisfactory and we concur that the level of UK inventory provisions is appropriate.

KEY AUDIT MATTER

5 RETIREMENT BENEFITS

KEY AUDIT MATTER 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. This scheme is closed to new entrants and benefits no longer accrue to members following the move of all active members to deferred members on 1 April 2017.

At 31 March 2018, the Group recorded a net retirement benefit asset of £959 million (2017: £702 million), being the net of scheme assets of £9,989 million (2017: £10,135 million) and scheme liabilities of £9,030 million (2017: £9,433 million). £8,908m of this liability relates to the UK scheme.

Our key audit matter was pinpointed to the valuation of UK scheme liabilities as it is sensitive to changes in key assumptions such as the discount rate, inflation and mortality estimates.

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:

	2018 £m	2017 £m
A decrease in the discount rate of 0.25%	**(70)**	(70)
A decrease in the inflation rate of 0.25%	**(25)**	(20)
A decrease in the average life expectancy of one year	**305**	370

This is a significant issue considered by the Audit Committee on page 38.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

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.

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.

Key observations
We are satisfied that all assumptions applied in respect of the valuation of the liabilities is appropriate.

KEY AUDIT MATTERS CONTINUED

KEY AUDIT MATTER

6 MANUAL ADJUSTMENTS TO REPORTED REVENUE

KEY AUDIT MATTER 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 and vouchers** – the directors apply an expected redemption rate to the total value of gift cards and vouchers 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.

There is the potential for possible manipulation of the rates applied to the company's estimate of gift card and voucher non-redemptions and customer returns given the significant amount of judgement involved.

This is a significant issue considered by the Audit Committee on page 38.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

We have considered each revenue-impacting manual adjustment, and assessed the appropriateness of the assumptions and judgements applied in deriving the material adjustments to revenue. 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 although note management's judgements are at the prudent end of our acceptable range.

OUR APPLICATION OF MATERIALITY

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.

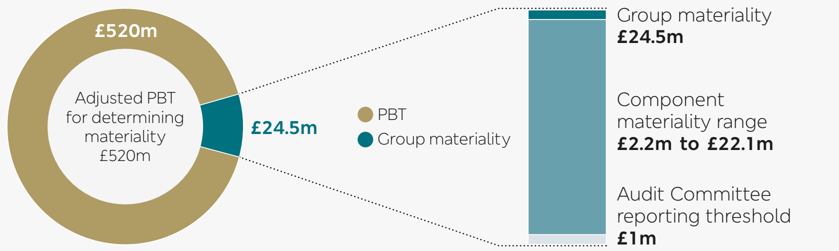
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

The materiality applied by the component auditors for full scope audits (see below) ranged from £2.2 million to £22.1 million (2017: £2.5 million to £22.5 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 (2017: £1 million) for the group and parent company, 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.

	Group financial statements	Parent company financial statements
Materiality	£24.5 million (2017: £24.5 million)	£22.1 million (2017: £22.1 million)
Basis for determining materiality	Group materiality was based on 5% reported adjusted profit before tax of £581 million excluding certain items based on their nature. The profit used in our determination was £520 million. The items we excluded from our determination are listed below and explained further in note 5 to the financial statements: – M&S Bank PPI charge – £35 million – Logistics restructuring – £13 million – UK store impairments and associated charges within £63 million adjusting item in note 5 – £13 million We capped materiality to £24.5 million so that it was not higher than the prior period given the group's trading performance in the current period.	We used 3% of net assets as the basis of materiality and then further capped this at 90% of Group materiality.
Rationale for the benchmark applied	Adjusted profit before tax has been used as it is the primary measure of performance used by the group. We have used adjusted profit measures that exclude certain items from our determination to aid the consistency and comparability of our materiality base each year.	The Parent Company acts principally as a holding company and therefore net assets is a key measure.

MATERIALITY



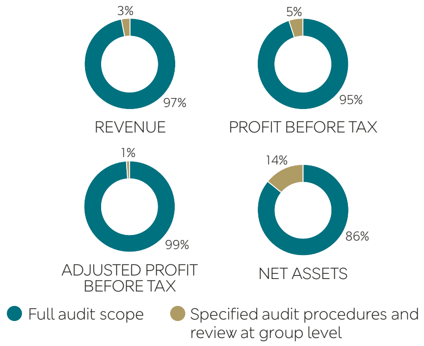
AN OVERVIEW OF THE SCOPE OF OUR AUDIT

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.

Based on our assessment we focused our group audit scope on the retail businesses in the UK, Republic of Ireland and India, which were subject to a full audit. We also performed audit procedures on specific balances for the remaining store exit provisions in France. This work was performed by the group audit team. In the prior period, China, Hong Kong and Czech Republic were also subject to a full audit but our scope changed following the group's reduction in scale of its owned international business.

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% (2017: 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.



The most significant component of the group is its retail business in the United Kingdom, which accounts for 90% (2017: 89%) of the Group's reported revenue of £10,698 million, and generates operating profit of £23 million (2017: £328 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 15 distribution centre and 35 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 overseas 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. The programme of visits are set out below, with future years subject to change as the Group's operations continue to evolve.

Component	2017 (Last year)	**2018 (This year)**	2019 (Next year)
India	✔	✔	✔
Republic of Ireland	✔		✔

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 component reporting.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT CONTINUED

USE OF OUR REPORT

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.

RESPONSIBILITIES OF DIRECTORS

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: **frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- 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 parent 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 in respect of these matters.

OTHER MATTERS

Auditor tenure

Following the recommendation of the audit committee, we were appointed by the shareholders on 8 July 2014 to audit the financial statements for the period ending 28 March 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years, covering the periods ending 28 March 2015 to 31 March 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

IAN WALLER (SENIOR STATUTORY AUDITOR)
FOR AND ON BEHALF OF DELOITTE LLP
STATUTORY AUDITOR, LONDON, UNITED KINGDOM

22 May 2018

CONSOLIDATED INCOME STATEMENT

	Notes	52 weeks ended 31 March 2018 Profit before adjusting items £m	Adjusting items £m	Total £m	52 weeks ended 1 April 2017 Profit before adjusting items £m	Adjusting items £m	Total £m
Revenue	2, 3	**10,698.2**	**–**	**10,698.2**	10,622.0	–	10,622.0
Operating profit	2, 3, 5	**670.6**	**(514.1)**	**156.5**	690.6	(437.4)	253.2
Finance income	6	**24.1**	**–**	**24.1**	36.2	–	36.2
Finance costs	6	**(113.8)**	**–**	**(113.8)**	(113.0)	–	(113.0)
Profit before tax	4, 5	**580.9**	**(514.1)**	**66.8**	613.8	(437.4)	176.4
Income tax expense	7	**(125.4)**	**87.7**	**(37.7)**	(122.4)	61.7	(60.7)
Profit for the year		**455.5**	**(426.4)**	**29.1**	491.4	(375.7)	115.7
Attributable to:							
Owners of the parent		**452.1**	**(426.4)**	**25.7**	492.8	(375.7)	117.1
Non-controlling interests		**3.4**	**–**	**3.4**	(1.4)	–	(1.4)
		455.5	**(426.4)**	**29.1**	491.4	(375.7)	115.7
Basic earnings per share	8	**27.8p**		**1.6p**	30.4p		7.2p
Diluted earnings per share	8	**27.8p**		**1.6p**	30.2p		7.2p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	52 weeks ended 31 March 2018 £m	52 weeks ended 1 April 2017 £m
Profit for the year		**29.1**	115.7
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of retirement benefit schemes	11	**200.9**	(68.9)
Tax charge on items that will not be reclassified		**(39.0)**	25.3
		161.9	(43.6)
Items that will be reclassified subsequently to profit or loss			
Foreign currency translation differences			
– movements recognised in other comprehensive income		**(23.4)**	31.0
– reclassified and reported in profit and loss		**(36.2)**	–
Revaluation of available for sale asset		**6.9**	-
Cash flow hedges and net investment hedges			
– fair value movements recognised in other comprehensive income		**(208.7)**	56.1
– reclassified and reported in profit or loss		**85.0**	(72.4)
– amount recognised in inventories		**57.5**	(20.1)
Tax credit on cash flow hedges and net investment hedges		**19.7**	4.1
		(99.2)	(1.3)
Other comprehensive income/(expense) for the year, net of tax		**62.7**	(44.9)
Total comprehensive income for the year		**91.8**	70.8
Attributable to:			
Owners of the parent		**88.4**	72.2
Non-controlling interests		**3.4**	(1.4)
		91.8	70.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 March 2018 £m	As at 1 April 2017 £m
Assets			
Non-current assets			
Intangible assets	14	**599.2**	709.0
Property, plant and equipment	15	**4,393.9**	4,837.8
Investment property		**15.5**	15.5
Investment in joint ventures		**7.0**	7.0
Other financial assets	16	**9.9**	3.0
Retirement benefit asset	11	**970.7**	706.0
Trade and other receivables	17	**209.0**	234.1
Derivative financial instruments	21	**27.1**	56.8
Deferred tax assets	23	**–**	–
		6,232.3	6,569.2
Current assets			
Inventories		**781.0**	758.5
Other financial assets	16	**13.7**	14.5
Trade and other receivables	17	**308.4**	318.6
Derivative financial instruments	21	**7.1**	163.1
Current tax assets		**–**	–
Cash and cash equivalents	18	**207.7**	468.6
		1,317.9	1,723.3
Total assets		**7,550.2**	8,292.5
Liabilities			
Current liabilities			
Trade and other payables	19	**1,405.9**	1,553.8
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**71.9**	71.9
Borrowings and other financial liabilities	20	**125.6**	518.0
Derivative financial instruments	21	**73.8**	10.5
Provisions	22	**98.8**	147.2
Current tax liabilities		**50.0**	66.6
		1,826.0	2,368.0
Non-current liabilities			
Retirement benefit deficit	11	**22.5**	13.2
Trade and other payables	19	**333.8**	328.5
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**263.6**	324.6
Borrowings and other financial liabilities	20	**1,670.6**	1,711.7
Derivative financial instruments	21	**30.7**	0.8
Provisions	22	**193.1**	113.5
Deferred tax liabilities	23	**255.7**	281.8
		2,770.0	2,774.1
Total liabilities		**4,596.0**	5,142.1
Net assets		**2,954.2**	3,150.4
Equity			
Issued share capital	24	**406.2**	406.2
Share premium account		**416.4**	416.4
Capital redemption reserve		**2,210.5**	2,210.5
Hedging reserve		**(65.3)**	17.3
Other reserve		**(6,542.2)**	(6,542.2)
Retained earnings		**6,531.1**	6,648.1
Total shareholders' equity		**2,956.7**	3,156.3
Non-controlling interests in equity		**(2.5)**	(5.9)
Total equity		**2,954.2**	3,150.4

The financial statements were approved by the Board and authorised for issue on 22 May 2018. The financial statements also comprise the notes on pages 81 to 114.

Steve Rowe Chief Executive 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 £m	Retained earnings[2] £m	Total £m	Non-controlling interest £m	Total £m
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	–	–	–	(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
As at 2 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**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**25.7**	**25.7**	**3.4**	**29.1**
Other comprehensive (expense)/income:										
Foreign currency translation										
– movement recognised in other comprehensive income	**–**	**–**	**–**	**0.2**	**–**	**(23.6)**	**–**	**(23.4)**	**–**	**(23.4)**
– reclassified and reported in profit and loss	**–**	**–**	**–**	**–**	**–**	**(36.2)**	**–**	**(36.2)**	**–**	**(36.2)**
Remeasurements of retirement benefit schemes	**–**	**–**	**–**	**–**	**–**	**–**	**200.9**	**200.9**	**–**	**200.9**
Tax credit on items that will not be reclassified	**–**	**–**	**–**	**–**	**–**	**–**	**(39.0)**	**(39.0)**	**–**	**(39.0)**
Revaluation of available for sale asset	**–**	**–**	**–**	**–**	**–**	**–**	**6.9**	**6.9**	**–**	**6.9**
Cash flow hedges and net investment hedges										
– fair value movement recognised in other comprehensive income	**–**	**–**	**–**	**(211.0)**	**–**	**–**	**2.3**	**(208.7)**	**–**	**(208.7)**
– reclassified and reported in profit or loss	**–**	**–**	**–**	**51.0**	**–**	**–**	**34.0**	**85.0**	**–**	**85.0**
– amount recognised in inventories	**–**	**–**	**–**	**57.5**	**–**	**–**	**–**	**57.5**	**–**	**57.5**
Tax on cash flow hedges and net investment hedges	**–**	**–**	**–**	**19.7**	**–**	**–**	**–**	**19.7**	**–**	**19.7**
Other comprehensive income/(expense)	**–**	**–**	**–**	**(82.6)**	**–**	**(59.8)**	**205.1**	**62.7**	**–**	**62.7**
Total comprehensive income/(expense)	**–**	**–**	**–**	**(82.6)**	**–**	**(59.8)**	**230.8**	**88.4**	**3.4**	**91.8**
Transactions with owners:										
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(303.4)**	**(303.4)**	**–**	**(303.4)**
Transactions with non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Shares issued on exercise of employee share options	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Purchase of own shares held by employee trusts	**–**	**–**	**–**	**–**	**–**	**–**	**(3.1)**	**(3.1)**	**–**	**(3.1)**
Credit for share-based payments	**–**	**–**	**–**	**–**	**–**	**–**	**18.5**	**18.5**	**–**	**18.5**
Deferred tax on share schemes	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
As at 31 March 2018	**406.2**	**416.4**	**2,210.5**	**(65.3)**	**(6,542.2)**	**(29.3)**	**6,560.4**	**2,956.7**	**(2.5)**	**2,954.2**

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 USD hedged bonds within finance costs.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	52 weeks ended 31 March 2018 £m	52 weeks ended 1 April 2017 £m
Cash flows from operating activities			
Cash generated from operations	26	**944.1**	1,165.7
Income tax paid		**(94.3)**	(98.0)
Net cash inflow from operating activities		**849.8**	1,067.7
Cash flows from investing activities			
Proceeds on property disposals		**3.2**	27.0
Purchase of property, plant and equipment		**(274.9)**	(309.1)
Proceeds on disposal of Hong Kong business		**22.9**	–
Purchase of intangible assets		**(74.3)**	(101.1)
Reduction of current financial assets		**0.8**	4.6
Interest received		**6.0**	6.6
Net cash used in investing activities		**(316.3)**	(372.0)
Cash flows from financing activities			
Interest paid[1]		**(112.2)**	(111.2)
Cash inflow/(outflow) from borrowings		**43.8**	(32.7)
Repayment of syndicated loan		**–**	(215.3)
Decrease in obligations under finance leases		**(2.6)**	(2.0)
Payment of liability to the Marks & Spencer UK Pension Scheme		**(59.6)**	(57.9)
Equity dividends paid		**(303.4)**	(377.5)
Shares issued on exercise of employee share options		**0.1**	5.5
Purchase of own shares by employee trust		**(3.1)**	–
(Redemption)/issuance of medium-term notes		**(328.2)**	300.0
Net cash used in financing activities		**(765.2)**	(491.1)
Net cash (outflow)/inflow from activities		**(231.7)**	204.6
Effects of exchange rate changes		**(3.5)**	5.6
Opening net cash		**406.2**	196.0
Closing net cash	27	**171.0**	406.2

1. Includes interest on the partnership liability to the Marks & Spencer UK Pension Scheme.

	Notes	52 weeks ended 31 March 2018 £m	52 weeks ended 1 April 2017 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		**(1,934.7)**	(2,138.3)
Net cash (outflow)/ inflow from activities		**(231.7)**	204.6
Decrease in current financial assets		**(0.8)**	(4.6)
Decrease in debt financing		**346.6**	7.9
Exchange and other non-cash movements		**(6.9)**	(4.3)
Movement in net debt		**107.2**	203.6
Closing net debt	27	**(1,827.5)**	(1,934.7)

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 1 to 24 including the Group's principal risks and uncertainties as set out on pages 22 to 24. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group has adequate resources to continue in operational existence and therefore it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 March 2018.

The Marks and Spencer Scottish Limited Partnership has taken an exemption under paragraph 7 of the Partnership (Accounts) Regulations 2008 from the requirement to prepare and deliver financial statements in accordance with the Companies Act.

New accounting standards adopted by the Group

There have been no significant changes to accounting under IFRS which have affected the Group's results. The IFRS IC has issued the annual improvements to IFRS: 2014-2016 cycle. The majority of amendments in this cycle are effective for annual periods on or after 1 January 2018 with the exception of the changes to IFRS 12 which have already been implemented and have not impacted 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 IAS 39 'Financial Instruments: Recognition and Measurement'. The standard is effective for periods beginning on or after 1 January 2018 and therefore will be effective in the Group financial statements for the 52 weeks ending 30 March 2019.

  The standard introduces changes to three key areas:

  – new requirements for the classification and measurement of financial instruments;

  – a new impairment model based on expected credit losses for recognising provisions; and

  – simplified hedge accounting through closer alignment with an entity's risk management methodology.

  The Group has completed an assessment of the impact of IFRS 9 and has concluded that adoption will not have a material impact on either the Consolidated Income Statement or the Consolidated Balance Sheet. The Group will apply all aspects of the new standard at the transition date of 1 April 2018 by adjusting opening retained earnings in the balance sheet and no restatement of comparative periods.

  The Group has an economic interest in M&S Bank which entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. M&S Bank adopted IFRS 9 with effect from 1 January 2018. The Group's share of profits for the period includes the post implementation impact of adopting the expected credit loss model for provisioning in accordance with the requirements of IFRS 9.

– IFRS 15 'Revenue from Contracts with Customers' is effective for periods beginning on or after 1 January 2018 and therefore will be effective in the Group financial statements for the 52 weeks ending 30 March 2019. The standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for performance obligations only when they are satisfied and the control of goods or services is transferred. In doing so, the standard applies a five-step approach to the timing of revenue recognition and 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 its assessment of the impact of IFRS 15 and based on the straightforward nature of the Group's revenue streams with the recognition of revenue at the point of sale and the absence of significant judgement required in determining the timing of transfer of control, the adoption of IFRS 15 will not have a material impact on the timing or nature of the Group's revenue recognition.

– IFRS 16 'Leases' is effective for periods beginning on or after 1 January 2019 and therefore will be effective in the Group financial statements for the 52 weeks ending 28 March 2020. Transition to IFRS 16 will take place for the Group on 31 March 2019. The standard introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees and will replace the current lease accounting requirements including IAS 17 Leases and the related interpretations.

  For lessees, IFRS 16 removes distinctions between operating leases and finance leases. These are replaced by a model where a right of use asset and a corresponding liability are recognised for all leases except for short-term leases and low value assets. In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

  The Group has established a steering committee to oversee the governance of the implementation project, which regularly reports to the Group Audit Committee. During the current period the Group has made progress in a number of areas including the identification of leases and contracts that could be determined to include a lease; the collation of lease data required for the calculation of the impact assessment; identification of areas of complexity or judgement relevant to the Group; identification of necessary changes to systems and processes required to enable reporting and accounting in accordance with IFRS 16; and development of initial estimates for discount rates.

  From the work performed to date and based on the undiscounted lease commitments presented in note 25, it is anticipated that implementation of the new standard will have a significant impact on the reported assets and liabilities of the Group. In addition, the implementation of the standard will impact the income statement and classification of cash flows. A reliable estimate of the financial impact on the Group's consolidated results is dependent on a number of unresolved areas, including; choice of transition option, refinement of approach to discount rates, estimates of lease-term for leases with options to break and renew and conclusion of data collection. In addition, the financial impact is dependent on the facts and circumstances at the time of transition. For these reasons, it is not yet practicable to determine a reliable estimate of the financial impact on the Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

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. These 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 adjusting 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 120 to 121 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 nature and/or quantum or are consistent with items that were treated as adjusting in prior periods. Treatment as an adjusting 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 adjusting items for the 52-week period ended 31 March 2018:

- Net charges associated with the strategic programme in relation to the review of the UK store estate.
- Significant restructuring costs and other associated costs arising from strategy changes that are not considered by the Group to be part of the normal operating costs of the business.
- Significant pension charges arising as a result of the previous year's changes to the UK defined benefit scheme practices.
- Impairment charges and provisions that are considered to be significant in nature and/or value to the trading performance of the business.
- Charges arising from adjustments to depreciation of leasehold assets and write-off of assets that are considered to be significant in nature and/or value.
- 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.
- Other adjusting items including profit on sale of Hong Kong and charges for potential liabilities for employee related matters.

Refer to note 5 for a summary of the adjusting 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.

1 ACCOUNTING POLICIES CONTINUED

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 legal right to offset these balances.

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. With effect from 1 April 2017 the Group no longer incurs any service cost or curtailment costs related to the UK defined benefit pension scheme as the scheme is closed to future accrual.

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.

During the year the UK defined benefit (DB) pension scheme purchased annuities in order to hedge longevity risk for pensioners within the scheme. As permitted by IAS19, the Group has opted to recognise the difference between the fair value of the plan assets and the cost of the policy as an actuarial loss in the statement of comprehensive income.

Payments to defined contribution retirement benefit schemes are charged as an expense on an accruals basis.

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 shorter of their useful economic lives or the remaining period of the lease; and
- 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

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.

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 an 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.

1 ACCOUNTING POLICIES CONTINUED

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); or
- 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 other 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.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 ACCOUNTING POLICIES CONTINUED

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

Adjusting items The directors believe that the adjusted profit and earnings per share measures provide additional useful information to 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 adjusting items requires significant management judgement after considering the nature and intentions of a transaction. The Group's definitions of adjusting items are outlined within both the Group accounting policies and the glossary on pages 120-121. These definitions have been applied consistently year-on-year.

Note 5 provides further details on current year adjusting items and their adherence to Group policy.

Sources of estimation uncertainty

UK store estate The Group is undertaking a significant strategic programme to review its UK store estate resulting in a net charge of £321.1m in the year. A significant level of estimation has been used to determine the charges to be recognised in the year. The most significant judgement that impacts the charge is that the stores identified as part of the programme are more likely than not to close. Where a store closure has been announced there is a reduced level of estimation uncertainty as the programme actions are to be taken over a shorter and more immediate timeframe. Further significant estimation uncertainty arises in respect of determining the recoverable amount of assets and the costs to be incurred as part of the programme. Significant assumptions have been made including:

- reassessment of the useful lives of store fixed assets;
- estimation in respect of the expected shorter-term trading value in use, including assumptions with regard to the period of trading as well as changes to future sales, gross margin and operating costs;
- estimation of the sale proceeds for freehold stores which is dependent upon location specific factors, timing of likely exit and future changes to the UK retail property market valuations;
- estimation of the value of dilapidation payments required for leasehold store exits, which is dependent on a number of factors including the extent of modifications of the store, the terms of the lease agreement, and the condition of the property; and
- estimation of future contractual lease costs to be incurred including uncertainty with regards to the cost of termination and/or potential sub-let (including estimation of nature, timing and value including any potential void periods and based on assessment of location specific retail property market factors).

See notes 5 and 15 for further detail.

Useful lives and residual values of property, plant and equipment and intangibles Depreciation and amortisation are provided to write down the cost of property, plant and equipment and intangibles 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, especially in the context of changing economic and market factors, the channel shift from stores to online, increasing technological advancement and the Group's ongoing strategic transformation programmes. The useful lives of property, plant and equipment and intangibles are reviewed by management annually. See notes 14 and 15 for further details. Refer to the UK store estate section above for specific sources of estimation uncertainty in relation to the useful lives and residual values of property, plant and equipment within stores identified as part of the UK store estate programme.

Impairment of property, plant and equipment and intangibles Property, plant and equipment and computer software intangibles are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill and indefinite lived brands are reviewed for impairment on an annual basis. When a review for impairment is conducted, the recoverable amount is determined based on the higher of value in use and fair value less costs to sell. The value in use method requires the Group to determine appropriate assumptions (which are sources of estimation uncertainty) in relation to the cash flow projections over the three-year strategic plan period, the long-term growth rate to be applied beyond this three-year period and the risk-adjusted pre-tax discount rate used to discount the assumed cash flows to present value. The assumption that cash flows continue into perpetuity (with the exception of stores identified as part of the UK store estate programme) is a source of significant estimation uncertainty. A future change to the assumption of trading into perpetuity for any CGU would result in a reassessment of useful economic lives and residual value and could give rise to a significant impairment of property, plant and equipment and intangibles particularly where the store carrying value exceeds fair value less cost to sell. See notes 14 and 15 for further details on the Group's assumptions and associated sensitivities.

Post-retirement benefits The determination of pension net interest income and the 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, pensionable 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.

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 historical 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, Asia and the 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 adjusting 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 31 March 2018				52 weeks ended 1 April 2017			
	Management[2] £m	**Logistics Adjustment[1] £m**	**Adjusting items £m**	**Statutory £m**	Management[2] £m	Logistics Adjustment[1] £m	Adjusting items £m	Statutory £m
Clothing & Home revenue	**3,741.1**	**–**	**–**	**3,741.1**	3,792.7	–	–	3,792.7
Food revenue	**5,869.9**	**–**	**–**	**5,869.9**	5,649.0	–	–	5,649.0
UK revenue	**9,611.0**	**–**	**–**	**9,611.0**	9,441.7	–	–	9,441.7
Franchised	**360.6**	**–**	**–**	**360.6**	314.0	–	–	314.0
Owned	**726.6**	**–**	**–**	**726.6**	866.3	–	–	866.3
International revenue	**1,087.2**	**–**	**–**	**1,087.2**	1,180.3	–	–	1,180.3
Group revenue	**10,698.2**	**–**	**–**	**10,698.2**	10,622.0	–	–	10,622.0
Clothing & Home gross profit	**2,116.7**				2,128.7			
Food gross profit	**1,828.7**				1,837.7			
UK gross profit	**3,945.4**	**(370.0)**	**–**	**3,575.4**	3,966.4	(360.5)	–	3,605.9
UK operating costs	**(3,450.3)**	**370.0**	**(477.5)**	**(3,557.8)**	(3,390.4)	360.5	(254.5)	(3,284.4)
M&S Bank	**40.3**	**–**	**(34.7)**	**5.6**	50.2	–	(44.1)	6.1
UK operating profit	**535.4**	**–**	**(512.2)**	**23.2**	626.2	–	(298.6)	327.6
International operating profit	**135.2**	**–**	**(1.9)**	**133.3**	64.4	–	(138.8)	(74.4)
Group operating profit	**670.6**	**–**	**(514.1)**	**156.5**	690.6	–	(437.4)	253.2
Finance income	**24.1**	**–**	**–**	**24.1**	36.2	–	–	36.2
Finance costs	**(113.8)**	**–**	**–**	**(113.8)**	(113.0)	–	–	(113.0)
Profit before tax	**580.9**	**–**	**(514.1)**	**66.8**	613.8	–	(437.4)	176.4

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 £370.0m (last year £360.5m).
2. Management profit excludes the adjustments (income or charges) made to reported profit before tax that are significant in value and/or nature (see note 5). Please refer to the accounting policy in note 1 and the glossary for more details on these adjustments.

Other segmental information

	2018			2017		
	UK[1] £m	**International £m**	**Total £m**	UK[1] £m	International £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	**322.4**	**13.2**	**335.6**	374.1	12.2	386.3
Depreciation and amortisation	**615.7**	**24.6**	**640.3**	549.1	29.1	578.2
Impairment and asset write-offs	**228.3**	**5.3**	**233.6**	72.7	31.2	103.9
Total assets	**7,242.4**	**307.8**	**7,550.2**	7,917.3	375.2	8,292.5
Non-current assets	**6,022.3**	**210.0**	**6,232.3**	6,324.4	244.8	6,569.2

1. UK assets include centrally held assets largely relating to IT systems that support the International business of £24.9m (last year; £34.0m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 EXPENSE ANALYSIS

	2018 Total £m	2017 Total £m
Revenue	**10,698.2**	10,622.0
Cost of sales	**(6,650.9)**	(6,534.2)
Gross profit	**4,047.3**	4,087.8
Selling and administrative expenses	**(3,426.2)**	(3,460.4)
Other operating income	**49.5**	63.2
Operating profit before adjusting items	**670.6**	690.6
Adjusting items (see note 5)	**(514.1)**	(437.4)
Operating profit	**156.5**	253.2

The selling and administrative expenses are further analysed below:

	2018 Total £m	2017 Total £m
Employee costs[1]	**1,521.0**	1,491.4
Occupancy costs	**705.6**	757.2
Repairs, renewals and maintenance of property	**94.7**	95.1
Depreciation, amortisation and asset impairments and write-offs before adjusting items	**580.6**	589.5
Other costs	**524.3**	527.2
Selling and administrative expenses	**3,426.2**	3,460.4

1. There are an additional £57.9m (last year £61.2m) 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:

	2018 £m	2017 £m
Net foreign exchange losses/(gains)	**0.8**	(0.2)
Cost of inventories recognised as an expense	**5,904.1**	5,776.1
Write down of inventories to net realisable value	**220.5**	234.9
Depreciation of property, plant, and equipment		
– owned assets	**459.1**	410.3
– under finance leases	**0.5**	0.5
Amortisation of intangible assets	**180.7**	167.4
Impairments and write-offs of assets	**233.6**	103.9
Operating lease rentals payable		
– property	**329.9**	350.1
– fixtures, fittings and equipment	**7.4**	4.3

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:

	2018 £m	2017 £m
Annual audit of the Company and the consolidated financial statements	**1.3**	0.9
Audit of subsidiary companies	**0.6**	0.7
Audit-related assurance services	**0.2**	0.3
Total audit and audit-related assurance services fees	**2.1**	1.9
Other services	**–**	–
Other services	**–**	–

5 ADJUSTING ITEMS

The total adjusting items reported for the 52 week period ended 31 March 2018 is a net charge of £514.1m (last year £437.4m). The adjustments made to reported profit before tax to arrive at adjusted profit are:

	Notes	2018 £m	2017 £m
Strategic programmes - UK store estate	15, 22	**(321.1)**	(51.6)
Strategic programmes - UK organisation	15, 22	**(30.7)**	(24.0)
Strategic programmes - IT restructure	22	**(15.5)**	–
Strategic programmes - UK logistics	15, 22	**(13.1)**	9.8
Strategic programmes - Changes to pay and pensions	22	**(12.9)**	(156.0)
Strategic programmes - International store closures and Impairments	22	**(5.0)**	(132.5)
UK store Impairments, asset write-offs and onerous lease charges	15, 22	**(63.4)**	(48.8)
M&S Bank charges incurred in relation to the insurance mis-selling provision		**(34.7)**	(44.1)
Other	22	**(17.7)**	9.8
Adjustments to profit before tax		**(514.1)**	(437.4)

In the prior year, the Group announced a wide-ranging strategic review across a number of areas of the business including customer, brand, UK organisation, UK store estate and International which has resulted in the Group recognising significant charges in both the prior and current financial years.

Strategic programmes – UK store estate (£321.1m)

In November 2016, the Group announced a five-year strategic programme to transform the UK store estate. During the year, the Group announced its intention to accelerate this programme in line with the strategic aim of significantly growing the online share of sales, as well as better than expected levels of sales transfer achieved from recent store closures. This acceleration of the UK store estate programme has resulted in an acceleration of the timing of recognition of the associated costs, primarily driven by a shortening of the useful economic life, for impairment testing purposes, of those stores identified as part of the transformation plans.

The Group has recognised a charge of £321.1m in the year in relation to those stores identified as part of its transformation plans. The charge includes the impairment of assets (reflecting the shortening of the useful economic life), accelerated depreciation of buildings, fixtures and fittings and management's best estimate of closure costs including onerous contracts and leases, dilapidations and, where closure has been approved and announced, redundancy costs. Refer to notes 15 and 22 for further detail on these charges.

Whilst costs relating to the closure and re-configuration of the UK store estate will recur across future financial years, the Group considers that they should be treated as an adjusting item given they are part of a strategic programme and are significant in value to the results of the Group.

Strategic programmes – UK organisation (30.7m)

During the year, the Group recognised a charge of £28.2m in relation to the centralisation of its London Head Office functions into one building. The remaining £2.5m charge in the period represents redundancy costs associated with changes to the UK Head Office structure. These costs are considered to be an adjusting item as the total programme cost is significant in value and relates to a significant strategic transformation programme of the Group. Treatment of the redundancy costs within adjusting items is consistent with the disclosure of the original UK organisation charges in the prior year.

Strategic programmes – IT reorganisation (£15.5m)

As part of the five-year transformation strategy, the Group announced a technology transformation programme to create a more agile, faster and commercial technology function that will work with the business to deliver both growth and cost efficiency. The £15.5m of costs incurred in the year relate primarily to redundancy, transition costs associated with the implementation of a new technology operating model and accelerated depreciation of IT assets which the Group expects to retire early as a result of the transformation strategy. Further costs will be incurred in respect of this reorganisation in the financial year ending 30 March 2019. These costs are considered to be an adjusting item as they relate to a significant strategic initiative of the Group and are significant in value, both in the year and in total for the project.

Strategic programmes – UK Logistics (£13.1m)

As part of the previously announced long-term strategic programme to transition to a single-tier UK distribution network, the Group has announced the opening of a new Clothing & Home distribution centre in Welham Green in 2019. As a direct result the Group has announced the closure of two existing distribution centres. A net charge of £13.1m has been recognised in the period for redundancy, dilapidations, accelerated depreciation, onerous contracts and project costs. The Group considers this cost to be an adjusting item as it is significant in value and relates to a significant strategic initiative of the Group. Further costs will be incurred in respect of this reorganisation in the financial year ending 30 March 2019. Treatment of the costs as being adjusting items is consistent with the treatment in previous periods in relation to the creation of a single-tier logistics network.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 ADJUSTING ITEMS CONTINUED

Strategic programmes – Changes to pay and pensions (£12.9m)
In 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. As part of these proposals the Group committed to making transition payments to impacted employees in relation to the closure of the UK DB scheme, expected to be c. £25m in total over three years (commencing 2017/18). The charge in the period for the first year of these transitional payments to employees is £12.9m.

As previously disclosed, the Group considers the costs directly associated with the closure of the UK DB scheme to be an adjusting item on the basis that they relate to a significant cost, impacting the Group results. Treatment of the transition payments made in the period within adjusting items is consistent with the disclosure of the UK DB scheme closure costs in the prior year.

Strategic programmes – International store closures and impairments (£5.0m)
In the prior year the Group announced its intention to close its owned stores in ten international markets, resulting in the recognition of £132.5m of expected closure costs primarily relating to redundancy, lease exit and property dilapidations. A net charge of £5.0m has been recognised in the period reflecting the actualisation of previously estimated closure costs and those costs which can only be recognised as incurred such as legal costs. The net charge is considered to be an adjusting item as it relates to a significant strategic program, which over the two years of charges has been significant in both value and nature to the results of the Group.

UK store impairments, asset write-offs and onerous lease contracts (£63.4m)
The Group has recognised a number of charges in the year associated with reductions to the carrying value of items of property, plant and equipment.

UK store impairment testing (excluding those stores which have been captured as part of the UK store estate programme) has identified certain stores where the current and anticipated future performance does not support the carrying value of the stores. As a result, a charge of £12.6m has been incurred primarily in respect of the impairment of assets associated with these stores. Refer to note 15 for further details on the impairments. This impairment charge is considered to be an adjusting item as it is considered to be consistent with the treatment of related impairments in the prior period.

Following the announcement of the UK store estate strategy in November 2016, the Group conducted a review of the £4.8bn net book value (as at 1 April 2017) of the property, plant and equipment on its balance sheet. A one-off non-cash adjustment was made to depreciation of £45.8m. Of the £45.8m, £43.2m relates to assets in the UK and £2.6m relates to assets in Ireland. Additionally, the Group has recognised an additional charge of £5.0m related to the write-off of store environment assets that are no longer used by the Group. The Group considers these costs to be adjusting items as the charges are significant in nature and value to the results of the Group for the current period.

M&S Bank charges incurred in relation to the insurance mis-selling provision (£34.7m)
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 one-off 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 fee income from M&S Bank has been reduced by the deduction of the estimated liability in both the current and prior years. The deduction in the period is £34.7m. The Group considers this cost to be an adjusting item, despite its recurring nature, as the charges are significant in nature and value in each period to the results of the Group.

Other (£17.7m)
Other includes profit on the disposal of our retail business in Hong Kong and charges for potential liabilities for certain employee related matters in the current period. The prior period income related to litigation settlements. These amounts are considered to be adjusting items as they are significant in nature and value to the results of the group in the current period.

On 30 December 2017, the Group completed the disposal of the retail business in Hong Kong and Macau to the Al-Futtaim Group for consideration of HKD360.7m (£33.9m). The profit on disposal of the business was £5.8m including the recycling of amounts previously taken to equity in respect of foreign currency translation and net investment hedging. This profit is considered to be an adjusting item as it is significant in nature to both the results of the Group and the International segment. The profit on disposal is analysed as follows:

	2018 £m	2017 £m
Proceeds	**33.9**	–
Disposal costs	**(0.9)**	–
Net disposal proceeds	**33.0**	–
Fair value of net assets disposed	**(28.6)**	–
Provision for transition services	**(0.8)**	–
Net foreign exchange amounts recycled from reserves	**2.2**	–
Profit on disposal	**5.8**	–

6 FINANCE INCOME/COSTS

	2018 £m	2017 £m
Bank and other interest receivable	**6.0**	6.6
Ineffectiveness on financial instruments	**0.4**	0.3
Pension net finance income (see note 11F)	**17.7**	29.3
Finance income	**24.1**	36.2
Interest on bank borrowings	**(1.2)**	(2.8)
Interest payable on syndicated bank facility	**(2.3)**	(4.3)
Interest payable on medium-term notes	**(90.0)**	(91.2)
Interest payable on finance leases	**(1.9)**	(1.9)
Ineffectiveness on financial instruments	**(2.3)**	–
Unwind of discount on provisions	**(5.2)**	(0.2)
Unwind of discount on partnership liability to the Marks and Spencer UK Pension Scheme (see note 12)	**(10.9)**	(12.6)
Finance costs	**(113.8)**	(113.0)
Net finance costs	**(89.7)**	(76.8)

7 INCOME TAX EXPENSE

A. Taxation charge

	2018 £m	2017 £m
Current tax		
UK corporation tax on profits for the year at 19% (last year: 20%)		
– current year	**65.4**	98.3
– adjustments in respect of prior years	**7.5**	(17.4)
UK current tax	**72.9**	80.9
Overseas current taxation		
– current year	**10.3**	8.9
– adjustments in respect of prior years	**(0.2)**	7.3
Total current taxation	**83.0**	97.1
Deferred tax		
– origination and reversal of temporary differences	**(37.3)**	(48.3)
– recognition of previously unrecognised tax losses	**(1.4)**	–
– adjustments in respect of prior years	**(3.1)**	11.5
– changes in tax rate	**(3.5)**	0.4
Total deferred tax (see note 23)	**(45.3)**	(36.4)
Total income tax expense	**37.7**	60.7

7 INCOME TAX EXPENSE CONTINUED

B. Taxation reconciliation

The effective tax rate was 56.4% (last year 34.4%) and is explained below.

	2018 £m	2017 £m
Profit before tax	**66.8**	176.4
Notional taxation at standard UK corporation tax rate of 19% (last year: 20%)	**12.7**	35.3
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**3.0**	4.7
Other income and expenses that are not taxable or allowable for tax purposes	**14.8**	(0.7)
Retranslation of deferred tax balances due to the change in statutory UK tax rates	**(3.5)**	(3.9)
Overseas profits taxed at rates different to those of the UK	**(3.4)**	(2.3)
Overseas tax losses where there is no relief anticipated in the foreseeable future	**–**	0.5
Adjustments to the current and deferred tax charges in respect of prior periods	**4.2**	1.4
Adjusting items:		
– depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**8.0**	–
– UK store and strategic programme impairments where no tax relief is available	**6.6**	7.7
– International store closures and impairments	**(8.3)**	26.0
– other strategic programme income and expenses that are not taxable or allowable for tax purposes	**3.4**	(1.7)
– other	**0.2**	–
– 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)
Total income tax expense	**37.7**	60.7

After excluding adjustments to underlying profit, the underlying effective tax rate was 21.6% (last year: 19.9%).

Other income and expenses that are not taxable or allowable for tax purposes include a charge of £12.7m (2017 £4.1m credit) in relation to the Marks and Spencer Scottish Limited Partnership. Under this structure tax relief for payments to be made to the Marks & Spencer UK Pension Scheme in relation to the first partnership interest arose in the first ten years of the structure and some of this benefit is recaptured in subsequent years.

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 continued to remeasure its UK deferred tax assets and liabilities at the end of the reporting period at the rates of 19% and 17% based on an updated expectation of when those balances are expected to unwind. This has resulted in the recognition of a deferred tax credit of £3.5m in the income statement and the recognition of a deferred tax charge of £0.1m in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7 INCOME TAX EXPENSE CONTINUED

C. Current Tax Reconciliation

The current tax reconciliation shows the tax effect of the main adjustments made to the Group's accounting profits in order to arrive at its taxable profits. The reconciling items differ from those in Note 7B as the effects of deferred tax timing differences are ignored below.

	2018 £m	2017 £m
Profit before taxation	**66.8**	176.4
Notional taxation at standard UK corporation tax rate of 19% (last year: 20%)	**12.7**	35.3
Disallowable accounting depreciation and other similar items	**78.7**	90.2
Deductible capital allowances	**(70.6)**	(67.2)
Adjustments in relation to employee share schemes	**2.8**	1.0
Adjustments in relation to employee pension schemes	**9.2**	(11.7)
Overseas profits taxed at rates different to those of the UK	**(3.4)**	(2.3)
Overseas tax losses where there is no tax relief anticipated in the foreseeable future	**–**	0.5
Other income and expenses that are not taxable or allowable	**0.5**	3.8
Adjusting items:		
– depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	**9.5**	–
– UK store and strategic programme impairments where no tax relief is available	**44.0**	17.3
– International store closures and impairments	**(16.2)**	27.3
– other strategic programme income and expenses that are not taxable or allowable for tax purposes	**5.1**	(1.8)
– pay and pensions	**–**	25.4
– other	**3.4**	–
– overseas profits taxed at rates different to those of the UK	**–**	(10.6)
Current year current tax charge	**75.7**	107.2
Represented by:		
UK current year current tax	**65.4**	98.3
Overseas current year current tax	**10.3**	8.9
	75.7	107.2
UK adjustments in respect of prior years	**7.5**	(17.4)
Overseas adjustments in respect of prior years	**(0.2)**	7.3
Total current taxation (Note 7A)	**83.0**	97.1

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 adjusting items that are significant in nature and/or quantum and are considered to be distortive (see note 5). These have been presented to provide shareholders with an additional measure of the Groups' 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 EARNINGS PER SHARE CONTINUED

Details of the adjusted earnings per share are set out below:

	2018 £m	2017 £m
Profit attributable to equity shareholders of the Company	**25.7**	117.1
Add/(less) (net of tax):		
Strategic programmes – UK store estate	**264.7**	46.5
Strategic programmes – UK organisation	**28.0**	20.3
Strategic programmes – IT restructure	**12.5**	–
Strategic programmes – UK logistics	**10.7**	(9.2)
Strategic programmes – Changes to pay and pensions	**10.4**	128.6
Strategic programmes – International store closures and impairments	**(4.1)**	120.8
UK store Impairments, asset write-offs and onerous lease charges	**61.6**	41.3
M&S Bank charges incurred in relation to the insurance mis-selling provision	**28.1**	35.3
Other	**14.5**	(7.9)
Profit before adjusting items attributable to equity shareholders of the Company	**452.1**	492.8

	Million	Million
Weighted average number of ordinary shares in issue	**1,624.0**	1,623.1
Potentially dilutive share options under the Group's share option schemes	**5.4**	8.0
Weighted average number of diluted ordinary shares	**1,629.4**	1,631.1

	Pence	Pence
Basic earnings per share	**1.6**	7.2
Diluted earnings per share	**1.6**	7.2
Adjusted basic earnings per share	**27.8**	30.4
Adjusted diluted earnings per share	**27.8**	30.2

9 DIVIDENDS

	2018 per share	2017 per share	2018 £m	2017 £m
Dividends on equity ordinary shares				
Paid final dividend	**11.9p**	11.9p	**193.1**	192.7
Special dividend	**–**	4.6p	**–**	74.5
Paid interim dividend	**6.8p**	6.8p	**110.3**	110.3
	18.7p	23.3p	**303.4**	377.5

The directors have approved a final dividend of 11.9p per share (last year 11.9p per share) which in line with the requirements of IAS 10 'Events after the Reporting Period', has not been recognised within these results. This final dividend of c.£193.1m (last year £193.1m) will be paid on 13 July 2018 to shareholders whose names are on the Register of Members at the close of business on 1 June 2018. The ordinary shares will be quoted ex dividend on 31 May 2018.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. For those shareholders electing to receive the DRIP the last date for receipt of a new election is 22 June 2018.

10 EMPLOYEES

A. Aggregate remuneration

The aggregate remuneration and associated costs of Group employees (including Operating Committee) were:

	2018 Total £m	2017 Total £m
Wages and salaries	**1,359.7**	1,333.8
Social security costs	**91.7**	89.7
Pension costs	**76.7**	100.3
Share-based payments (see note 13)	**18.9**	10.6
Employee welfare and other personnel costs	**56.6**	47.1
Capitalised staffing costs	**(24.7)**	(28.9)
Total aggregate remuneration[1]	**1,578.9**	1,552.6

1. Excludes amounts recognised within adjusting 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.

10 EMPLOYEES CONTINUED

B. Average monthly number of employees

	2018	2017
UK stores		
– management and supervisory categories	**6,004**	5,617
– other	**66,540**	66,385
UK head office		
– management and supervisory categories	**3,088**	3,172
– other	**856**	862
UK operations		
– management and supervisory categories	**89**	191
– other	**1,153**	1,267
Overseas	**6,891**	7,445
Total average number of employees	**84,621**	84,939

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 58,928 (last year 59,764).

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 pensionable salary basis and is governed by a Trustee board which is independent of the Group. The UK DB scheme closed to future accrual on 1 April 2017. On closure of the UK DB scheme, all remaining active members moved to deferred status which resulted in a curtailment charge of £127.0m in the prior year. There will be no further 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 nil), 60,402 deferred members (last year 62,655) and 51,802 pensioners (last year 51,198).

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. No additional funding contributions were made during the year in respect of benefits already accrued by members, as the final contribution of £28m, (agreed at the 2012 actuarial valuation) was paid in the prior year. 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 54,001 active members (last year 53,661) and some 19,984 deferred members (last year 12,866).

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 £58.9m (last year £198.4m). Of this, income of £14.7m (last year cost of £148.0m) relates to the UK DB pension scheme which included a £127.0m curtailment charge in the prior year, £68.8m (last year £45.1m) to the UK DC plan and £4.8m (last year £5.3m) to other retirement benefit schemes.

In March 2018, the UK DB pension scheme purchased pensioner buy-in policies with two insurers covering £1.4bn of UK pensioners' liabilities which is approximately one third of the pensioner portfolio. The buy-ins transfer longevity risk to the insurers and reduce the pension risks being underwritten by the Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RETIREMENT BENEFITS CONTINUED

A. Pensions and other post-retirement liabilities

	2018 £m	2017 £m
Total market value of assets	**9,989.3**	10,135.1
Present value of scheme liabilities	**(9,029.6)**	(9,433.3)
Net funded pension plan asset	**959.7**	701.8
Unfunded retirement benefits	**(3.6)**	(1.0)
Post-retirement healthcare	**(7.9)**	(8.0)
Net retirement benefit surplus	**948.2**	692.8
Analysed in the statement of financial position as:		
Retirement benefit asset	**970.7**	706.0
Retirement benefit deficit	**(22.5)**	(13.2)
Net retirement benefit surplus	**948.2**	692.8

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:

	2018 %	2017 %
Rate of increase in pensions in payment for service	**2.0-3.2**	2.0-3.2
Discount rate	**2.65**	2.55
Inflation rate	**3.15**	3.20
Long-term healthcare cost increases	**7.15**	7.20

C. Demographic assumptions

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:

		2018	2017
Current pensioners (at age 65)	– male	**22.3**	23.2
	– female	**25.2**	24.7
Future pensioners – currently in deferred status (at age 65)	– male	**24.1**	24.7
	– female	**27.0**	27.1

D. Sensitivity analysis

The table below summarises the estimated impact of changes in the principal actuarial assumptions on the UK DB pension scheme surplus:

	2018 £m	2017 £m
Decrease in scheme surplus caused by a decrease in the discount rate of 0.25%	**(70.0)**	(70.0)
Decrease in scheme surplus caused by a decrease in the inflation rate of 0.25%	**(25.0)**	(20.0)
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	**305.0**	370.0

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.

11 RETIREMENT BENEFITS CONTINUED

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 (refer to note 12), the scheme invests in different types of bonds (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly the scheme has hedging that covers 93% of interest rate movements and 91% of inflation movements, as measured on the Trustees' funding assumptions which use a discount rate derived from gilt yields.

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.

The fair value of the total plan assets at the end of the reporting period for each category is as follows:

	2018			2017		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Debt investments						
– Government Bonds net of repurchase agreements[1]	**4,472.9**	**369.4**	**4,842.3**	4,851.3	368.4	5,219.7
– Corporate Bonds	**5.9**	**685.4**	**691.3**	5.6	896.3	901.9
– Asset backed securities and structured debt	**–**	**339.2**	**339.2**	–	547.9	547.9
Scottish Limited Partnership Interest (see note 12)	**–**	**345.4**	**345.4**	–	412.1	412.1
Equity investments						
– Developed markets	**460.8**	**102.8**	**563.6**	1,125.4	110.2	1,235.6
– Emerging markets	**151.7**	**–**	**151.7**	268.4	–	268.4
Growth Asset Funds						
– Global Property	**–**	**274.0**	**274.0**	–	256.3	256.3
– Hedge and Reinsurance	**18.2**	**406.2**	**424.4**	–	322.0	322.0
– Private Equity and Infrastructure	**–**	**222.5**	**222.5**	–	241.5	241.5
Derivatives						
– Interest and inflation rate swaps	**7.7**	**6.4**	**14.1**	0.6	(29.5)	(28.9)
– Foreign exchange contracts and other derivatives	**0.1**	**154.8**	**154.9**	1.3	202.9	204.2
Cash and Cash equivalents	**41.8**	**92.5**	**134.3**	86.1	72.2	158.3
Other						
– Buy In Insurance	**–**	**1,277.9**	**1,277.9**	–	–	–
– Secure Income Asset Funds	**–**	**466.7**	**466.7**	–	326.7	326.7
– Other	**87.0**	**–**	**87.0**	69.4	–	69.4
	5,246.1	**4,743.2**	**9,989.3**	6,408.1	3,727.0	10,135.1

1. Repurchase agreements were £920.2m (last year £1,333.9m)

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 41,046 (last year 193,506) ordinary shares in the Company through its investment in UK Equity Index Funds.

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11 RETIREMENT BENEFITS CONTINUED

F. Analysis of amounts charged against profits

Amounts recognised in comprehensive income in respect of defined benefit retirement plans are as follows:

	2018 £m	2017 £m
Current service cost	**0.3**	47.2
Administration costs	**3.5**	3.2
Past service costs – curtailment charge	**–**	128.0
Net interest income	**(17.7)**	(29.3)
Total	**(13.9)**	149.1
Remeasurement on the net defined benefit surplus:		
Actual return on scheme assets excluding amounts included in net interest income	**88.2**	(1,543.8)
Actuarial gain – demographic assumptions	**(85.1)**	–
Actuarial loss/(gain) – experience	**26.3**	(1.5)
Actuarial loss/(gain) – financial assumptions	**(230.3)**	1,614.2
Components of defined benefit income recognised in other comprehensive income	**(200.9)**	68.9

G. Scheme assets

Changes in the fair value of the scheme assets are as follows:

	2018 £m	2017 £m
Fair value of scheme assets at start of year	**10,135.1**	8,515.3
Interest income based on discount rate	**253.4**	284.9
Actual return on scheme assets excluding amounts included in net interest income[1]	**(88.2)**	1,543.8
Employer contributions	**40.7**	87.7
Benefits paid	**(353.9)**	(298.4)
Administration costs	**(3.3)**	(3.0)
Exchange movement	**5.5**	4.8
Fair value of scheme assets at end of year	**9,989.3**	10,135.1

1. The actual return on scheme assets was a gain of £164.6m (last year gain of £1,828.7m).

H. Pensions and other post-retirement liabilities

Changes in the present value of retirement benefit obligations are as follows:

	2018 £m	2017 £m
Present value of obligation at start of year	**9,442.3**	7,691.2
Current service cost	**0.3**	47.2
Administration costs	**0.2**	0.2
Curtailment charge	**–**	128.0
Interest cost	**235.7**	255.6
Benefits paid	**(353.9)**	(298.4)
Actuarial loss/(gain) - experience	**26.3**	(1.5)
Actuarial (gain) - demographic assumptions	**(85.1)**	–
Actuarial (gain)/loss - financial assumptions	**(230.3)**	1,614.2
Exchange movement	**5.6**	5.8
Present value of obligation at end of year	**9,041.1**	9,442.3
Analysed as:		
Present value of pension scheme liabilities	**9,029.6**	9,433.3
Unfunded pension plans	**3.6**	1.0
Post-retirement healthcare	**7.9**	8.0
Present value of obligation at end of year	**9,041.1**	9,442.3

The average duration of the defined benefit obligation at 31 March 2018 is 19 years (last year 19 years).

12 MARKS AND SPENCER SCOTTISH LIMITED PARTNERSHIP

Marks and Spencer plc is a general partner and the Marks & Spencer UK Pension Scheme is a limited partner of the Marks and Spencer Scottish Limited Partnership (the Partnership). Under the partnership agreement, the limited partners have no ongoing 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 £1.5bn (last year £1.6bn) of properties which have been leased back to Marks and Spencer plc. 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 June 2022 from the Partnership. The second limited partnership interest (also held by the Marks and Spencer UK Pension Scheme), entitles the Pension Scheme to receive a further annual distribution of £36.4m from June 2017 until June 2031. All profits generated by the Partnership in excess of these amounts are distributable to Marks and Spencer plc.

The partnership liability in relation to the first interest of £335.5m (last year £396.5m) is valued at the net present value of the future expected distributions from the Partnership and is included as a liability in the Groups' financial statements as it a transferable financial instrument. During the year to 31 March 2018 an interest charge of £10.9m (last year £12.6m) was recognised in the income statement representing the unwinding 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 £345.4m (last year £412.1m).

The second partnership interest is not a transferable financial instrument and therefore is not included as a plan asset within the UK DB pension scheme surplus reported in accordance with IAS 19. Similarly the associated liability is not included on the Groups statement of financial position.

13 SHARE-BASED PAYMENTS

This year a charge of £18.9m was recognised for share-based payments (last year charge of £10.6m). Of the total share-based payments charge, £11.0m (last year £10.9m) relates to the Save As You Earn share option scheme and a charge of £2.3m (last year credit of £3.6m) relates to the Performance Share Plan. The remaining charge of £5.6m (last year £3.3m) 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 last year under the Deferred Share Bonus Plan. There is no charge in the current year. Further details of the operation of the Group share plans are provided in the Remuneration Report on pages 50 to 62.

A. Save As You Earn Scheme

The SAYE scheme was approved by shareholders for a further 10 years at the 2017 AGM. 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 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.

	2018		2017	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the year	**43,294,094**	**310.6p**	30,154,547	393.3p
Granted	**13,351,790**	**261.0p**	28,166,455	260.0p
Exercised	**(29,500)**	**269.7p**	(1,763,039)	312.8p
Forfeited	**(7,758,295)**	**307.1p**	(12,881,484)	391.8p
Expired	**(5,126,432)**	**402.5p**	(382,385)	355.2p
Outstanding at end of year	**43,731,657**	**285.4p**	43,294,094	310.6p
Exercisable at end of year	**4,976,777**	**362.3p**	4,928,971	403.5p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 314.8p (last year 387.4p).

The fair values of the options granted during the year have been calculated using the Black-Scholes model assuming the inputs shown below:

	2018	**2018**	2017	2017	2017
	3-year plan	**3-year plan 2016 modified[1]**	3-year plan	3-year plan 2016 modified[2]	3-year plan 2015 modified[2]
Grant date	**Nov 17**	**Nov 17**	Nov 16	Nov 16	Nov 16
Share price at grant date	**298p**	**298p**	335p	335p	335p
Exercise price	**261p**	**432p**	260p	432p	369p
Option life in years	**3 years**	**3 years**	3 years	3 years	3 years
Risk-free rate	**0.5%**	**0.5%**	0.2%	0.2%	0.2%
Expected volatility	**27.8%**	**27.8%**	28.5%	28.5%	28.5%
Expected dividend yield	**6.3%**	**6.3%**	5.6%	5.6%	5.6%
Fair value of option	**42p**	**32p**	66p	19p	30p
Incremental fair value of option	**N/A**	**10p**	N/A	47p	36p

1. In the current year, there has been a modification to the 2018 scheme relating to employees cancelling awards from previous years in substitution for awards granted under the 2018 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 2018 options, being 42p, and the fair value of repriced previous awards, calculated using 2018 award assumptions, keeping the initial exercise price consistent. The fair value of the modified options, being 10p for 2016 modified options is already recognised in operating profit.
2. In the prior year, there was a modification to the 2017 scheme relating to employees cancelling awards from previous years in substitution 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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	**2018**	2017	**2018**	2017	Option price
January 2014	**–**	4,854,749	**–**	0.2	405p
January 2015	**4,703,165**	6,280,741	**0.2**	1.2	369p
January 2016	**3,397,156**	4,676,198	**1.2**	2.2	432p
January 2017	**22,925,562**	27,482,406	**2.2**	3.2	260p
January 2018	**12,705,774**	–	**3.3**	–	261p
	43,731,657	43,294,094	**2.2**	2.5	285p

B. Performance Share Plan*
The Performance Share Plan (PSP) 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 2017/18 included Adjusted Earnings Per Share (EPS), Return on Capital Employed (ROCE), and Total Shareholder Return (TSR). 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 50 - 62. Awards under this plan have been made in each year since 2005.

During the year, 7,880,779 shares (last year 7,569,499) were awarded under the plan. The weighted average fair value of the shares awarded was 268.4p (last year 328.0p). As at 31 March 2018 17,624,385 shares (last year 14,816,764) were outstanding under the plan.

C. Deferred Share Bonus Plan*
The Deferred Share Bonus Plan (DSBP) 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 plan, 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, 1,892,215 shares (last year 1,563,439) have been awarded under the Plan in relation to the annual bonus. The fair value of the shares awarded was 343.3p (last year 355.8p). As at 31 March 2018, 4,248,291 shares (last year 3,033,709) were outstanding under the plan.

D. Restricted Share Plan*
The Restricted Share Plan (RSP) 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 employment of the Company on the relevant vesting date. 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, 1,105,428 shares (last year 321,229) have been awarded under the plan. The weighted average fair value of the shares awarded was 314.0p (last year 326.6p). As at 31 March 2018, 1,555,748 shares (last year 888,027) were outstanding under the plan.

E. Republic of Ireland Save As You Earn Scheme
Sharesave, the Company's Save As You Earn scheme was introduced in 2009 to all employees in the Republic of Ireland for a ten-year period, after approval by shareholders at the 2009 AGM. The scheme is subject to Irish Revenue rules which limit the maximum monthly saving to €500 per month. The Company chose in 2009 to set a monthly savings cap of €320 per month to align the maximum savings amount 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, 210,486 options (last year 324,768) were granted, at a fair value of 41.5p (last year 66.3p). As at 31 March 2018, 644,325 options (last year 521,837) were outstanding under the scheme.

F. Marks and Spencer Employee Benefit Trust
The Marks and Spencer Employee Benefit Trust (the Trust) holds 2,247,837 (last year 2,173,101) shares with a book value of £9.8m (last year £10.7m) and a market value of £6.1m (last year £7.3m). 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.

* All DSBP awards and 297,114 of the RSP awards (last year 321,229) were nil cost options, all remaining shares awarded were nil cost awards. For the purposes of calculating the number of shares awarded, the share price used is the average of the mid-market price for the five consecutive dealing days preceding the grant date.

14 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer Software £m	Computer software under development £m	Total £m
At 2 April 2016					
Cost or valuation	136.2	112.3	1,272.0	89.4	1,609.9
Accumulated amortisation and impairments	(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
Year ended 31 March 2018					
Opening net book value	**78.4**	**13.4**	**558.4**	**58.8**	**709.0**
Additions	**–**	**–**	**0.2**	**74.1**	**74.3**
Transfers	**–**	**–**	**94.2**	**(89.2)**	**5.0**
Asset impairments	**–**	**–**	**–**	**–**	**–**
Asset write-offs	**–**	**–**	**(5.8)**	**(1.7)**	**(7.5)**
Amortisation charge	**–**	**(5.3)**	**(175.4)**	**–**	**(180.7)**
Exchange difference	**(1.0)**	**–**	**0.3**	**(0.2)**	**(0.9)**
Closing net book value	**77.4**	**8.1**	**471.9**	**41.8**	**599.2**
At 31 March 2018					
Cost or valuation	**136.4**	**112.3**	**1,400.0**	**65.6**	**1,714.3**
Accumulated amortisation and impairments and write-offs	**(59.0)**	**(104.2)**	**(928.1)**	**(23.8)**	**(1,115.1)**
Net book value	**77.4**	**8.1**	**471.9**	**41.8**	**599.2**

Goodwill relate to the following groups of cash generating units (CGU's):

	per una £m	**India £m**	**UK £m**	**Total goodwill £m**
Net book value at 1 April 2017	**69.5**	**8.2**	**0.7**	**78.4**
Exchange difference	**–**	**(1.0)**	**–**	**(1.0)**
Net book value at 31 March 2018	**69.5**	**7.2**	**0.7**	**77.4**

1. Other adjustments relate to the adjustment of the provision values for business combinations related to the acquisition of Lima (Bradford) S.à.r.l in the prior period.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 INTANGIBLE ASSETS CONTINUED

Impairment testing

Goodwill is not amortised but is tested annually for impairment with the recoverable amount being determined from value in use calculations. Goodwill for India and the UK 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 £8m). 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 per una goodwill and brand are allocated for impairment testing purposes to a single CGU.

The key estimates that management uses in the value in use calculations are expected changes to future cash flows and discount rates.

Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to each CGU. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital adjusted for the specific risks relating to each CGU.

The cash flows used for impairment testing 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 long-term growth rate based on the Group's current view of achievable long-term growth. The long-term growth rates do not exceed the long-term growth rate for the UK, the long-term growth rate in the Group's Clothing & Home business or the long-term growth rate in India.

Management has performed sensitivity analysis on the key assumptions both with other variables held constant and with other variables simultaneously changed. Management has concluded that there are no reasonably possible changes in any key assumptions that would cause the carrying amounts of goodwill or brands to exceed the value in use for India or the UK.

However, the context in which these estimates have been made for the per una CGU is more uncertain due to the significant change in the UK retail market. The following key assumptions would have to change as follows to eliminate the headroom in the per una CGU:

- In the short-term, assuming that cost reductions are materially in line with plan, the key assumption driving the value in use calculated is the ability to deliver cash flow forecasts. Cash flow forecasts in each of the years covered by the three-year plan would have to be 38% below current expectations to eliminate the headroom in the per una CGU;
- In the medium to long-term, the key assumption driving the value in use is the ability to generate profitable growth in the context of significant change in the UK retail market. This is reflected within the estimate of the long-term growth rate of -3.0%. Long-term growth rates, including a commensurate decline in cash flows over the period of the Group's three-year plan, would have to decline by 9.4% to eliminate the headroom in these calculations; and,
- An increase of 9.2% in the pre-tax discount rate to 17.8% would eliminate the headroom in the per una CGU.

15 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 2 April 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
Year ended 31 March 2018				
Opening net book value	**2,587.8**	**2,171.9**	**78.1**	**4,837.8**
Additions	**0.2**	**56.5**	**204.6**	**261.3**
Transfers	**10.2**	**186.6**	**(200.8)**	**(4.0)**
Disposals	**(2.1)**	**(15.4)**	**–**	**(17.5)**
Asset impairments	**(104.8)**	**(103.3)**	**–**	**(208.1)**
Asset write-offs	**(16.5)**	**1.5**	**(3.0)**	**(18.0)**
Depreciation charge	**(59.8)**	**(399.8)**	**–**	**(459.6)**
Exchange difference	**2.9**	**(0.8)**	**(0.1)**	**2.0**
Closing net book value	**2,417.9**	**1,897.2**	**78.8**	**4,393.9**
At 31 March 2018				
Cost	**2,963.4**	**7,059.0**	**96.8**	**10,119.2**
Accumulated depreciation, impairments and write-offs	**(545.5)**	**(5,161.8)**	**(18.0)**	**(5,725.3)**
Net book value	**2,417.9**	**1,897.2**	**78.8**	**4,393.9**

Asset write-offs in the year include assets with gross book value of £784.9m and £nil net book value that are no longer in use and have therefore been retired.

The net book value above includes land and buildings of £41.6m (last year £42.1m) and equipment of £nil (last year £nil) 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.

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. One of the indicators of impairment is whether a store is identified within the Groups' UK store estate programme (see note 5).

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 long-term growth rate for UK stores based on historic growth rates and management future expectations, 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. If the CGU relates to a store which the Group has been identified as part of the UK store estate programme, the value in use calculated has been modified by estimation of the future cash flows up to the point where it is estimated that trade will cease and then estimation of the timing and amount of costs associated with closure detailed fully in note 5.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Impairment of property, plant and equipment continued

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 8% to 15% (last year 7% to 21%). If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the additional key assumptions in the value in use calculations are costs associated with closure, the proceeds and timing of exit.

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 an impairment charge of £196.2m and no impairment reversal as a result of the announced UK store estate programme. The impairment charge relates to the acceleration in the year of the programme announced in November 2016 (see note 5). These impairments have been recognised within adjusting items (see note 5).

The Group has performed sensitivity analysis on the impairment tests associated with the UK store estate programme. A delay of 12 months in the probable date of each store exit would result in a decrease in the impairment charge of £43.2m. A 2% reduction in the year 1 sales growth would result in an increase in the impairment charge of £5.5m. Neither a 1% increase in the discount rate, a 20 basis point reduction in gross margin during the period of trading nor a 2% increase in the costs associated with exiting a store would result in a significant increase to the impairment charge.

During the year the Group has recognised an impairment charge of £11.9m and no impairment reversals as a result of store impairment testing unrelated to the UK store estate programme. The gross impairment charge relates to stores in the UK. These impairments have been recognised within adjusting items (see note 5).

The Group has performed a sensitivity analysis on the key assumptions in the impairment model for those UK stores not expected to be included in the UK store estate programme described above. A 1% reduction in the sales growth would result in an increase in the impairment charge of £1.0m and a 20 basis point reduction in gross margin would increase the impairment charge by £0.4m. A 100 basis point increase in the pre-tax discount rate would increase the impairment charge by £5.4m.

16 OTHER FINANCIAL ASSETS

	2018 £m	2017 £m
Non-current		
Unlisted investments	**9.9**	3.0
Current		
Short-term investments[1]	**13.7**	14.5

1. Includes £5.8m (last year £5.3m) of money market deposit held by Marks and Spencer plc in an escrow account, as part of the Group's self-funded captive insurance scheme.

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

	2018 £m	2017 £m
Non-current		
Other receivables	**2.3**	15.1
Prepayments and accrued income	**206.7**	219.0
	209.0	234.1
Current		
Trade receivables	**114.3**	111.0
Less: provision for impairment of receivables	**(0.4)**	(1.7)
Trade receivables – net	**113.9**	109.3
Other receivables	**30.9**	28.5
Prepayments and accrued income	**163.6**	180.8
	308.4	318.6

Trade and other receivables that were past due but not impaired amounted to £21.3m (last year £20.8m) 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 £28.2m (last year £31.5m) 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 £207.7m (last year £468.6m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.40% (last year 0.21%). These deposits have an average maturity of 23 days (last year eight days).

19 TRADE AND OTHER PAYABLES

	2018 £m	2017 £m
Current		
Trade and other payables	**872.9**	967.5
Social security and other taxes	**57.1**	55.0
Accruals and deferred income	**475.9**	531.3
	1,405.9	1,553.8
Non-current		
Other payables , accruals and deferred income	**333.8**	328.5

20 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2018 £m	2017 £m
Current		
Bank loans and overdrafts[1]	**88.4**	70.3
Finance lease liabilities	**0.3**	0.4
6.250% US$500m medium-term notes 2017[3,4]	**–**	328.1
Interest accrued on medium-term notes	**36.9**	46.4
Revaluation of medium-term notes	**–**	72.8
	125.6	518.0
Non-current		
6.125% £400m medium-term notes 2019[2,5]	**400.1**	400.2
6.125% £300m medium-term notes 2021[2]	**298.2**	297.8
3.00% £300m medium-term notes 2023[2]	**296.9**	296.3
4.75% £400m medium-term notes 2025[2,5]	**397.5**	397.1
7.125% US$300m medium-term notes 2037[3,4]	**192.0**	191.9
Revaluation of medium-term notes	**38.2**	80.1
Finance lease liabilities	**47.7**	48.3
	1,670.6	1,711.7
Total	**1,796.2**	2,229.7

1. Bank loans and overdrafts include a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see note 28).
2. These notes are issued under Marks and Spencer plc's £3bn European medium-term note programme and all pay interest annually.
3. Interest on these bonds is payable semi-annually.
4. 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, the £425m (last year £425m) was swapped from fixed to floating rate.

Finance leases
The minimum lease payments under finance leases fall due as shown in the table on the following page. The weighted average lease term for equipment is two years (last year three years) and 93 years (last year 95 years) for property. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

21 FINANCIAL INSTRUMENTS

Treasury policy
The Group operates a centralised treasury function to manage the Group's funding requirements and financial risks in line with the Board approved treasury policies and procedures, and their delegated authorities.

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations.

The Group treasury function also enters into derivative transactions, principally interest rate 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 need to liquidate any outstanding investments. The treasury function is managed as a cost centre and does not engage in speculative trading.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Financial risk management

The principal financial risks faced by the Group are liquidity and funding, interest rate, foreign currency and counterparty 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 & Spencer plc is financed by a combination of retained profits, bank borrowings, medium-term notes and a committed syndicated bank facility.
- Operating subsidiaries are financed by a combination of retained profits, bank borrowings and intercompany loans.

At year end, the Group had a committed syndicated bank revolving credit facility of £1.1bn set to mature on 15 April 2023, following the Group's second and final request to extend the facility by one further year. The 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 uncommitted facilities available to it. At year end, these amounted to £100m (last year £150m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £nil (last year £nil) was drawn under the committed facilities and £45m (last year £nil) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Group has a Euro Medium Term Note programme of £3bn, of which £1.4bn (last year £1.4bn) was in issuance as at the balance sheet date.

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	(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)			
Timing of cash flows									
Within one year	**(88.4)**	**–**	**(86.1)**	**(2.3)**	**(71.9)**	**(248.7)**	**30.0**	**(88.2)**	**(58.2)**
Between one and two years	**–**	**–**	**(486.1)**	**(2.3)**	**(71.9)**	**(560.3)**	**21.9**	**(18.1)**	**3.8**
Between two and five years	**–**	**–**	**(466.3)**	**(6.9)**	**(215.5)**	**(688.7)**	**270.0**	**(248.5)**	**21.5**
More than five years	**–**	**–**	**(1,207.2)**	**(168.9)**	**–**	**(1,376.1)**	**223.1**	**(198.5)**	**24.6**
	(88.4)	**–**	**(2,245.7)**	**(180.4)**	**(359.3)**	**(2,873.8)**	**545.0**	**(553.3)**	**(8.3)**
Effect of discounting	**–**	**–**	**585.9**	**132.4**	**23.8**	**742.1**			
At 31 March 2018	**(88.4)**	**–**	**(1,659.8)**	**(48.0)**	**(335.5)**	**(2,131.7)**			

1. Derivative cash flows are disclosed based on actual settlement. All derivatives are settled net, except for currency swaps.

The present value of finance lease liabilities is as follows:

	2018 £m	2017 £m
Within one year	**(0.3)**	(0.4)
Later than one year and not later than five years	**(1.1)**	(1.6)
Later than five years	**(46.6)**	(46.7)
Total	**(48.0)**	(48.7)

21 FINANCIAL INSTRUMENTS CONTINUED

Financial risk management continued

(b) Counterparty risk

Counterparty risk exists where the Group can suffer financial loss through the default or non-performance of the financial institutions with whom it transacts.

Exposures are managed in accordance with the Group 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 agency 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.

	AAA+ £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

	AAA+ £m	**AAA £m**	**AA £m**	**AA- £m**	**A+ £m**	**A £m**	**A- £m**	**BBB+ £m**	**Total £m**
Short-term investments[1]	**–**	**–**	**2.6**	**9.8**	**33.6**	**7.9**	**2.7**	**1.5**	**58.1**
Derivative assets[2]	**–**	**–**	**–**	**–**	**–**	**8.0**	**–**	**2.9**	**10.9**
At 31 March 2018	**–**	**–**	**2.6**	**9.8**	**33.6**	**15.9**	**2.7**	**4.4**	**69.0**

1. Includes cash on deposit and money market funds held by Marks & Spencer Scottish Limited Partnership, Marks & Spencer plc and Marks & Spencer General Insurance. Excludes cash in hand and in transit £149.6m (last year £116.9m).
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 a very low retail credit risk due to transactions principally being of high volume, low value and short maturity.

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £114m (last year £111m), other receivables £33m (last year £44m), cash and cash equivalents £208m (last year £469m) and derivatives £34m (last year £220m).

(c) Foreign currency risk

Transactional foreign currency exposure arises 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 & 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, with between 80% and 100% of the risk hedged nine months before the start of the season.

Other exposures arising 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 £1,963m (last year £2,023m) with a weighted average maturity date of six months (last year six months).

Gains and losses in equity on forward foreign exchange contracts designated in cash flow hedge relationships as at 31 March 2018 will be released to the income statement at various dates over the following 17 months (last year 17 months) from the balance sheet date.

The Group previously used a combination of foreign currency debt and foreign exchange contracts to hedge its net balance sheet translation exposure by currency arising from investment in overseas operations. The treasury policy was changed during the current financial year and the Group no longer hedges these. Last year, €26m and HK$190m of foreign exchange contracts were in place hedging overseas net assets.

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 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 £3.3m gain (last year £2.3m gain) in the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £217m (last year £367m).

21 FINANCIAL INSTRUMENTS CONTINUED

Financial risk management continued

(c) Foreign currency risk continued

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:

	2018			2017		
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**1,276.2**	**511.6**	**1,787.8**	1,727.8	492.3	2,220.1
Euro	**6.5**	**–**	**6.5**	6.6	0.7	7.3
Other	**0.1**	**1.8**	**1.9**	0.1	2.2	2.3
	1,282.8	**513.4**	**1,796.2**	1,734.5	495.2	2,229.7

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 4.7% (last year 5.0%) and the weighted average time for which the rate is fixed is six years (last year six 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 £1,282.8m (last year £1,734.5m) representing the public bond issues and finance leases, amounting to 71% (last year 78%) of the Group's gross borrowings.

The effective interest rates at the balance sheet date were as follows:

	2018 %	2017 %
Committed and uncommitted borrowings	**1.0**	0.3
Medium-term notes	**4.7**	5.0
Finance leases	**4.3**	4.3

Derivative financial instruments

		2018		2017	
		Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Current					
Cross-currency swaps	– cash flow hedges	**–**	**–**	72.6	–
Forward foreign exchange contracts	– cash flow hedges	**5.1**	**(73.6)**	89.1	(9.0)
	– held for trading	**2.0**	**(0.2)**	0.7	(1.5)
	– net investment hedges	**–**	**–**	0.7	–
		7.1	**(73.8)**	163.1	(10.5)
Non-current					
Cross-currency swaps	– cash flow hedges	**–**	**(26.7)**	14.0	–
Forward foreign exchange contracts	– cash flow hedges	**0.4**	**(4.0)**	1.3	(0.8)
Interest rate swaps	– fair value hedges	**26.7**	**–**	41.5	–
		27.1	**(30.7)**	56.8	(0.8)

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 a £0.4m gain (last year £0.3m) as the gain on the hedged items was £15.0m (last year £0.3m) and the movement on the hedging instruments was £14.6m loss (last year £nil).

The Group holds a number of cross currency interest rate swaps to re-designate its USD to GBP fixed debt. These are reported as cash flow hedges. The ineffective portion recognised in the profit and loss that arises from the cash flow hedges amounts to a £2.3m loss (last year £nil) as the gain on the hedged items was £24.9m (last year £nil) and the movement on the hedging instruments was £27.2m loss (last year £nil).

21 FINANCIAL INSTRUMENTS CONTINUED

Sensitivity analysis

The table below illustrates the estimated impact on the income statement and equity as a result of market movements in foreign exchange and interest rates in relation to 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 reasonable 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 a 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 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)
At 31 March 2018				
Impact on income statement: gain/(loss)	**8.9**	**(9.1)**	**–**	**–**
Impact on other comprehensive income: (loss)/gain	**(15.6)**	**10.6**	**215.7**	**(222.4)**

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 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)	64.4	(330.0)	11.3	(318.7)

	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 31 March 2018					
Trade and other receivables	**31.3**	**(29.9)**	**1.4**	**–**	**1.4**
Derivative financial assets	**34.2**	**–**	**34.2**	**(34.2)**	**–**
Cash and cash equivalents	**46.3**	**(46.0)**	**0.3**	**–**	**0.3**
	111.8	**(75.9)**	**35.9**	**(34.2)**	**1.7**
Trade and other payables	**(276.4)**	**29.9**	**(246.5)**	**–**	**(246.5)**
Derivative financial liabilities	**(104.5)**	**–**	**(104.5)**	**34.2**	**(70.3)**
Bank loans and overdrafts	**(82.5)**	**46.0**	**(36.5)**	**–**	**(36.5)**
	(463.4)	**75.9**	**(387.5)**	**34.2**	**(353.3)**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Offsetting of financial assets and liabilities continued

The gross financial assets and liabilities set out in the balance sheet primarily relate to cash pooling arrangements with banks. Amounts which do not meet the criteria for offsetting on the balance sheet 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 includes 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; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. No level 3 instruments were in place at the year end.

At the end of the reporting period, the Group held the following financial instruments at fair value:

	2018				2017			
	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	**–**	**2.0**	**–**	**2.0**	–	0.7	–	0.7
Derivatives used for hedging	**–**	**32.2**	**–**	**32.2**	–	219.2	–	219.2
Short- term investments	**–**	**13.7**	**–**	**13.7**	–	14.5	–	14.5
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
– trading derivatives	**–**	**(0.2)**	**–**	**(0.2)**	–	(1.5)	–	(1.5)
Derivatives used for hedging	**–**	**(104.3)**	**–**	**(104.3)**	–	(9.8)	–	(9.8)

The Marks & Spencer UK DB Pension Schemes holds a number of financial instruments which make up the pension asset of £9,989.3m (last year £10,135.1m). Level 1 and Level 2 financial assets measured at fair value through other comprehensive income amounted to £7,152.4m (last year £8,690.2m). Additionally, the scheme assets include £2,836.9m (last year £1,444.9m) 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 £9.9m (last year £3.0m) in unlisted equity securities measured at fair value (see note 16).

The following table represents the changes in Level 3 instruments held by the Pension Schemes:

	2018 £m	2017 £m
Opening balance	**1,444.9**	1,219.1
Fair value (loss)/gain recognised in other comprehensive income	**(74.9)**	100.6
Additional investment/(derecognition)	**1,466.9**	125.2
Closing balance	**2,836.9**	1,444.9

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 £1,659.9m (last year £2,110.7m), the fair value of this debt was £1,761.0m (last year £2,236.7m).

21 FINANCIAL INSTRUMENTS CONTINUED

Capital policy

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide optimal returns for shareholders and to maintain an efficient capital structure to reduce the cost of capital.

In doing so the Group's strategy is to maintain a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt 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 six years (last year seven years). During the year the Group maintained an investment grade credit rating of Baa3 (stable) with Moody's and BBB- (stable) with Standard & Poor's.

In order to maintain or realign the capital structure, the Group may adjust the number of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

22 PROVISIONS

	Property £m	Restructuring £m	Other £m	2018 £m	2017 £m
At 1 April 2017	**128.7**	**101.6**	**30.4**	**260.7**	66.0
Provided in the year	**135.2**	**23.7**	**28.1**	**187.0**	246.0
Released in the year	**(12.6)**	**(12.9)**	**(3.3)**	**(28.8)**	(26.3)
Utilised during the year	**(23.5)**	**(85.9)**	**(23.6)**	**(133.0)**	(30.2)
Exchange differences	**0.3**	**1.9**	**–**	**2.2**	3.4
Discount rate unwind	**5.2**	**–**	**–**	**5.2**	0.2
Reclassification from trade and other payables	**–**	**–**	**(1.4)**	**(1.4)**	1.6
At 31 March 2018	**233.3**	**28.4**	**30.2**	**291.9**	260.7
Analysed as:					
Current				**98.8**	147.2
Non-current				**193.1**	113.5

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 building. These provisions are expected to be utilised over the period to the end of each specific lease.

Restructuring provisions relate to the estimated costs associated with the International exit strategy and the strategic programme to transition to a single tier UK distribution network. These provisions are expected to be utilised within the next year.

Other provisions include amounts in respect of potential liabilities for employee-related matters. The utilisation during the year primarily related to the payment of transition amounts 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% as applicable (last year 19% and 17%) 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 2 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)
At 2 April 2017	**(43.3)**	**(62.4)**	**(169.4)**	**2.7**	**(272.4)**	**(9.4)**	**(281.8)**
Credited/(charged) to income statement	**8.0**	**33.1**	**1.2**	**1.3**	**43.6**	**1.7**	**45.3**
Credited/(charged) to equity/ other comprehensive income	**–**	**–**	**(39.8)**	**19.9**	**(19.9)**	**0.5**	**(19.4)**
Other Balance Sheet movement	**1.4**	**–**	**–**	**–**	**1.4**	**(1.2)**	**0.2**
At 31 March 2018	**(33.9)**	**(29.3)**	**(208.0)**	**23.9**	**(247.3)**	**(8.4)**	**(255.7)**

23 DEFERRED TAX CONTINUED

Deferred tax assets/(liabilities) continued

Other short-term term temporary differences relate mainly to employee share options and financial instruments.

The deferred tax liability on land and buildings temporary differences is reduced by the benefit of capital losses with a gross value of £283.2m (last year £254.5m) and a tax value of £53.8m (last year £48.4m). 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 £80.1m (last year £147.9m) and a tax value of £16.9m (last year £34.2m).

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures with a gross value of £48.4m (last year £38.2m) unless a material liability is expected to arise on distribution of these earnings under applicable tax legislation. There is a potential tax liability in respect of undistributed earnings of £11.5m (last year £9.0m) however this has not been recognised on the basis the distribution can be controlled by the Group.

24 ORDINARY SHARE CAPITAL

	2018 Shares	2018 £m	2017 Shares	2017 £m
Issued and fully paid ordinary shares of 25p each				
At start of year	**1,624,727,846**	**406.2**	1,622,964,807	405.8
Shares issued on exercise of share options	**29,500**	**–**	1,763,039	0.4
At end of year	**1,624,757,346**	**406.2**	1,624,727,846	406.2

Issue of new shares

29,500 (last year 1,763,039) ordinary shares having a nominal value of £0.0m (last year £0.4m) were allotted during the year under the terms of the Company's schemes which are described in note 13. The aggregate consideration received was £0.1m (last year £5.5m).

25 CONTINGENCIES AND COMMITMENTS

A. Capital commitments

	2018 £m	2017 £m
Commitments in respect of properties in the course of construction	**121.8**	156.4
Software capital commitments	**17.2**	11.0
	139.0	167.4

B. Other material contracts

In the event of termination of our trading arrangements with certain warehouse operators, the Group has a number of options and commitments to purchase some property, plant and equipment, at values ranging from historical net book value to market value, which are currently owned and operated by the warehouse operators on the Group's behalf.

See note 12 for details on the partnership arrangement with the Marks & Spencer UK Pension Scheme.

C. Commitments under operating leases

The Group leases various stores, offices, warehouses and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

	2018 £m	2017 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	**288.5**	342.0
– Later than one year and not later than five years	**1,026.1**	1,115.9
– Later than five years and not later than ten years	**896.8**	964.1
– Later than ten years and not later than 15 years	**503.8**	421.9
– Later than 15 years and not later than 20 years	**304.6**	285.3
– Later than 20 years and not later than 25 years	**149.4**	166.8
– Later than 25 years	**1,026.8**	1,069.5
Total	**4,196.0**	4,365.5

The total future sublease payments to be received are £27.4m (last year £34.6m).

Of the total commitments under operating leases disclosed above, £172.5m (2017: £129.1m) is already provided for on the balance sheet as onerous lease provisions with regards to stores identified as part of the UK store estate programme. In relation to the International strategic programme, in 2017, £70m of total commitments under operating leases are already provided for with regards to expected lease exit costs. No commitments remain in the current year relating to the International strategic programme.

26 ANALYSIS OF CASH FLOWS GIVEN IN THE STATEMENT OF CASH FLOWS

Cash flows from operating activities

	2018 £m	2017 £m
Profit on ordinary activities after taxation	**29.1**	115.7
Income tax expense	**37.7**	60.7
Finance costs	**113.8**	113.0
Finance income	**(24.1)**	(36.2)
Operating profit	**156.5**	253.2
(Increase)/decrease in inventories	**(38.2)**	53.9
Decrease/(increase) in receivables	**28.8**	(9.9)
Decrease in payables	**(87.4)**	(51.5)
Adjusting items net cash outflows	**(153.1)**	(36.8)
Non-cash share-based payment charges	**18.9**	10.6
Depreciation, amortisation and write-offs	**580.6**	589.5
Defined benefit pension funding	**(41.4)**	(36.6)
Adjusting items non-cash	**(34.7)**	(44.1)
Adjusting operating profit items	**514.1**	437.4
Cash generated from operations	**944.1**	1,165.7

Adjusting items net cash outflows relate to the utilisation of the provisions for international store closures, strategic programme costs associated with both the UK store estate, UK organisation, UK logistics, IT reorganisation and changes to pay and pensions. Adjusting 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 2 April 2017 £m	Cash flow £m	Exchange and other non-cash movements £m	At 31 March 2018 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 20)	(70.3)	(18.1)	–	**(88.4)**
Less: amounts treated as financing (see below)	7.9	43.8	–	**51.7**
	(62.4)	25.7	–	**(36.7)**
Cash and cash equivalents (see note 18)	468.6	(257.4)	(3.5)	**207.7**
Net cash per statement of cash flows	406.2	(231.7)	(3.5)	**171.0**
Current financial assets (see note 16)	14.5	(0.8)	–	**13.7**
Debt financing				
Bank loans, and overdrafts treated as financing (see above)	(7.9)	(43.8)	–	**(51.7)**
Medium-term notes (see note 20)	(1,911.4)	328.2	(1.5)	**(1,584.7)**
Finance lease liabilities (see note 20)	(48.7)	2.6	(1.9)	**(48.0)**
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(387.4)	59.6	–	**(327.8)**
Debt financing	(2,355.4)	346.6	(3.4)	**(2,012.2)**
Net debt	(1,934.7)	114.1	(6.9)	**(1,827.5)**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 ANALYSIS OF NET DEBT CONTINUED

B. Reconciliation of net debt to statement of financial position

	2018 £m	2017 £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 18)	**207.7**	468.6
Current financial assets (see note 16)	**13.7**	14.5
Bank loans and overdrafts (see note 20)	**(88.4)**	(70.3)
Medium-term notes – net of hedging derivatives	**(1,621.7)**	(1,957.8)
Finance lease liabilities (see note 20)	**(48.0)**	(48.7)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12 and 21)	**(335.5)**	(396.5)
	(1,872.2)	(1,990.2)
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	**44.7**	55.5
Total net debt	**(1,827.5)**	(1,934.7)

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 31 December 2017. 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 and the members of the Operating Committee. For the prior year, the members of the Board were considered to be key management personnel for the whole year, and members of the Operating Committee with effect from November 2016 when the terms of reference of the Operating Committee were ratified.

	2018 £m	2017 £m
Salaries and short-term benefits	**7.9**	8.1
Share-based payments	**0.4**	–
Total	**8.3**	8.1

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 March 2018 £m	As at 1 April 2017 £m
Assets			
Non-current assets			
Investments in subsidiary undertakings	C6	**9,260.3**	9,249.3
Total assets		**9,260.3**	9,249.3
Liabilities			
Current liabilities			
Amounts owed to subsidiary undertakings		**2,550.6**	2,552.2
Total liabilities		**2,550.6**	2,552.2
Net assets		**6,709.7**	6,697.1
Equity			
Ordinary share capital		**406.2**	406.2
Share premium account		**416.4**	416.4
Capital redemption reserve		**2,210.5**	2,210.5
Merger reserve		**1,397.3**	1,397.3
Retained earnings		**2,279.3**	2,266.7
Total equity		**6,709.7**	6,697.1

The Company's profit for the year was £305.0m (last year £379.0m).

The financial statements were approved by the Board and authorised for issue on 22 May 2018. The financial statements also comprise the notes on pages 116 to 118.

Steve Rowe Chief Executive Officer

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 3 April 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**
At 2 April 2017	**406.2**	**416.4**	**2,210.5**	**1,397.3**	**2,266.7**	**6,697.1**
Profit for the year	**–**	**–**	**–**	**–**	**305.0**	**305.0**
Dividends	**–**	**–**	**–**	**–**	**(303.4)**	**(303.4)**
Capital contribution for share-based payments	**–**	**–**	**–**	**–**	**11.0**	**11.0**
At 31 March 2018	**406.2**	**416.4**	**2,210.5**	**1,397.3**	**2,279.3**	**6,709.7**

COMPANY STATEMENT OF CASH FLOWS

	52 weeks ended 31 March 2018 £m	52 weeks ended 1 April 2017 £m
Cash flow from investing activities		
Dividends received	**305.0**	379.0
Net cash generated from investing activities	**305.0**	379.0
Cash flows from financing activities		
Shares issued on exercise of employee share options	**–**	5.5
Repayment of intercompany loan	**(1.6)**	(7.0)
Equity dividends paid	**(303.4)**	(377.5)
Net cash used in financing activities	**(305.0)**	(379.0)
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.

Sources of estimation uncertainty

Impairment of investments in subsidiary undertakings

The carrying value of the investment in subsidiary undertakings is reviewed for impairment on an annual basis. The recoverable amount is determined based on value in use which requires the determination of appropriate assumptions (which are sources of estimation uncertainty) in relation to the cash flows over the three-year strategic plan period, the long-term growth rate to be applied beyond this three-year period and the risk-adjusted pre-tax discount rate used to discount the assumed cash flows to present value.

Estimation uncertainty arises due to changing economic and market factors, the channel shift from stores to online, increasing technological advancement and the Group's ongoing strategic transformation programmes.

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 £999,922 (last year £936,000). 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

	2018 per share	2017 per share	2018 £m	2017 £m
Dividends on equity ordinary shares				
Paid final dividend	**11.9p**	11.9p	**193.1**	192.7
Special dividend	**–**	4.6p	**–**	74.5
Paid interim dividend	**6.8p**	6.8p	**110.3**	110.3
	18.7p	23.3p	**303.4**	377.5

The directors have approved a final dividend of 11.9p per share (last year 11.9p per share) which in line with the requirements of IAS 10 'Events after the Reporting Period', has not been recognised within these results. This final dividend of c.£193.1m (last year £193.1m) will be paid on 13 July 2018 to shareholders whose names are on the Register of Members at the close of business on 1 June 2018. The ordinary shares will be quoted ex dividend on 31 May 2018.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. For those shareholders electing to receive the DRIP the last date for receipt of a new election is 22 June 2018.

C5 RELATED PARTY TRANSACTIONS

During the year, the Company has received dividends from Marks and Spencer plc of £305.0m (last year £379.0m) and decreased its loan from Marks and Spencer plc by £1.6m (last year £7.0m). The outstanding balance was £2,550.6m (last year £2,552.2m) and is non-interest bearing. There were no other related party transactions.

C6 INVESTMENTS

A. Investments in subsidiary undertakings

	2018 £m	2017 £m
Beginning of the year	**9,249.3**	9,235.8
Additional investment in subsidiary undertakings relating to share-based payments	**11.0**	13.5
End of the year	**9,260.3**	9,249.3

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.

C6 INVESTMENTS CONTINUED

A. Investments in subsidiary undertakings continued

Sensitivity analysis has been performed on the impairment testing of the carrying value of investments. The following key assumptions would have to change as follows in order to eliminate the headroom within the impairment test:

- the cash flow forecasts in each of the years covered by the three-year forecast would have to be 28% below forecast;
- the long-term growth rate of cash flows would have to decline to -9% per annum; or
- the pre-tax discount rate would have to increase to 17.9%.

The directors do not consider that any of these scenarios are reasonably likely.

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 31 March 2018 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	–	100
Hedge End Park Limited Registered Office: 33 Holborn, London, EC1N 2HT	£1 Ordinary	–	50
M&S Limited	£1 Ordinary	–	100
Manford (Textiles) Limited	£1 Ordinary	–	100
Marks & Spencer Company Archive CIC	£1 Ordinary	–	100
Marks & Spencer Outlet Limited	£1 Ordinary	–	100
Marks & Spencer Simply Foods Limited	£1 Ordinary	–	100
Marks and Sparks Limited	£1 Ordinary	–	100
Marks and Spencer (Northern Ireland) Limited Registered Office: 8 Laganbank Road, Belfast, BT1 3LR	£1 Ordinary	–	100
Marks and Spencer (Property Investments) Limited	£1 Ordinary	–	100
Marks and Spencer Chester Limited	£1 Ordinary	–	100
Marks and Spencer France Limited	£1 Ordinary	–	100
Marks and Spencer Guernsey Investments LLP	Partnership interest	–	100
Marks and Spencer International Holdings Limited	£1 Ordinary	–	100
Marks and Spencer Pension Trust Investments Limited	£1 Ordinary	–	100
Marks and Spencer Pension Trust Limited[ii]	£1 A Ordinary	100	–
	£1 B Ordinary	–	–
	£1 C Ordinary	–	–
Marks and Spencer plc	£0.25 Ordinary	100	–
Marks and Spencer Property Developments Limited	£1 Ordinary	–	100
Marks and Spencer Scottish Limited Partnership[iii] Registered Office: 2-28 St Nicholas Street, Aberdeen, AB10 1BU	Partnership interest	–	100
Marks and Spencer Shared Services Limited	£1 Ordinary	–	100
Minterton Services Limited	£1 Ordinary	–	100
Marks and Spencer (Bradford) Limited	£1 Ordinary	–	100
Ruby Properties (Enfield) Limited	£1 Ordinary	–	100
St. Michael (Textiles) Limited	£1 Ordinary	–	100
St. Michael Finance plc	£1 Ordinary	–	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 31 March 2018. 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	–	100	4246934
Busyexport Limited	–	100	4411320
Marks and Spencer (Initial LP) Limited Registered Office: No. 2 Lochrin Square, 96 Fountainbridge, Edinburgh, Midlothian, EH3 9QA	100	–	SC315365
Marks and Spencer (Property Ventures) Limited	–	100	5502513
Marks and Spencer 2005 (Brooklands Store) Limited	–	100	5502608
Marks and Spencer 2005 (Chester Satellite Store) Limited	–	100	5502519
Marks and Spencer 2005 (Chester Store) Limited	–	100	5502542
Marks and Spencer 2005 (Fife Road Kingston Store) Limited	–	100	5502598
Marks and Spencer 2005 (Glasgow Sauchiehall Store) Limited	–	100	5502546
Marks and Spencer 2005 (Hedge End Store) Limited	–	100	5502538
Marks and Spencer 2005 (Kensington Store) Limited	–	100	5502478
Marks and Spencer 2005 (Kingston-on-Thames Satellite Store) Limited	–	100	5502523
Marks and Spencer 2005 (Kingston-on-Thames Store) Limited	–	100	5502520
Marks and Spencer 2005 (Parman House Kingston Store) Limited	–	100	5502588
Marks and Spencer 2005 (Pudsey Store) Limited	–	100	5502544
Marks and Spencer 2005 (Warrington Gemini Store) Limited	–	100	5502502
Marks and Spencer Hungary Limited	–	100	8540784
Marks and Spencer Investments	–	100	4903061
Marks and Spencer Property Holdings Limited	–	100	2100781
Ruby Properties (Cumbernauld) Limited	–	100	4922798
Ruby Properties (Hardwick) Limited	–	100	4716018
Ruby Properties (Long Eaton) Limited	–	100	4716031
Ruby Properties (Thorncliffe) Limited	–	100	4716110
Ruby Properties (Tunbridge) Limited	–	100	4716032
Simply Food (Property Investments)	–	100	5502543
Simply Food (Property Ventures) Limited	–	100	2239799

The Company will guarantee the debts and liabilities of the above UK subsidiary undertakings at the balance sheet date of £5.1m 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

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 (Belgium) SPRL	4th Floor, 97 Rue Royale, 1000 Brussels, Belgium	Belgium	€1.21 Ordinary	100
Marks & Spencer Canada Incorporated (in liquidation)	Brunswick Square, 1 Germain Street Suite 1700, Saint-John, New Brunswick, E2L 4W3, Canada	Canada	Common	100
			Class A Preference	100
			Class B Preference	100
Marks & Spencer Holdings Canada Incorporated (in liquidation)	Brunswick Square, 1 Germain Street Suite 1700, Saint-John, New Brunswick, E2L 4W3, Canada	Canada	Common	100
			Class A Preference	100
Marks & Spencer Inc.	Brunswick Square, 1 Germain Street Suite 1700, Saint-John, New Brunswick, E2L 4W3, Canada	Canada	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	Room 2090, Block 1, HKRI Taikoo Hui, 288 Shimen No One Road, Jing'An District, Shanghai, China	China	Registered Capital	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
M.S. General Insurance L.P.	Heritage Hall, Le Marchant Street, St Peter Port, GY1 4HY, Guernsey	Guernsey	Partnership interest	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 (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	15 Esplanade, St. Helier, JE1 1RB, Jersey	Jersey	£1 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.	Prins Bernhardplein, 1097 JB, 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 (in liquidation)	Anchor Plaza, No. 26Z Timisoara Boulevard, 3rd floor, premises no. 3B-1, 6th District, Bucharest	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	100
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

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

	2018 52 weeks £m	2017 52 weeks £m	2016 53 weeks £m	2015 52 weeks £m	2014 52 weeks £m
Income statement					
Revenue[1]					
UK	**9,611.0**	9,441.7	9,470.8	9,223.1	9,155.7
International	**1,087.2**	1,180.3	1,084.6	1,088.3	1,154.0
	10,698.2	10,622.0	10,555.4	10,311.4	10,309.7
Operating profit/(loss)[1]					
UK	**23.2**	327.6	627.3	640.6	600.3
International	**133.3**	(74.4)	(43.2)	60.7	94.2
Total operating profit	**156.5**	253.2	584.1	701.3	694.5
Net interest payable	**(107.4)**	(106.1)	(110.6)	(111.8)	(125.8)
Pension finance income	**17.7**	29.3	15.3	10.5	11.7
Profit on ordinary activities before taxation	**66.8**	176.4	488.8	600.0	580.4
Analysed between:					
Profit before tax after adjusting items	**580.9**	613.8	689.6	661.2	622.9
Adjustments to reported profit	**(514.1)**	(437.4)	(200.8)	(61.2)	(42.5)
Income tax expense	**(37.7)**	(60.7)	(84.4)	(118.3)	(74.4)
Profit after taxation	**29.1**	115.7	404.4	481.7	506.0

		2018 52 weeks	2017 52 weeks	2016 53 weeks	2015 52 weeks	2014 52 weeks
Basic earnings per share[1]	Profit after tax/ Weighted average ordinary shares in issue	**1.6p**	7.2p	24.9p	29.7p	32.5p
Adjusted basic earnings per share[1]	Adjusted basic earnings/ Weighted average ordinary shares in issue	**27.8p**	30.4p	35.0p	33.1p	32.2p
Dividend per share declared in respect of the year		**18.7p**	18.7p	18.7p	18.0p	17.0p
Dividend cover	Adjusted earnings per share/ Dividend per share	**1.5x**	1.6x	1.9x	1.8x	1.9x
Retail fixed charge cover	Operating profit before depreciation and operating lease charges/Fixed charges	**3.8x**	3.4x	3.7x	3.6x	3.4x
Statement of financial position						
Net assets (£m)		**2,954.2**	3,150.4	3,443.4	3,198.8	2,706.7
Net debt[2] (£m)		**1,827.5**	1,934.7	2,138.3	2,223.2	2,463.6
Capital expenditure (£m)		**300.5**	331.2	525.1	526.6	710
Stores and space						
UK stores		**1,035**	979	914	852	798
UK selling space (m sq ft)		**17.6**	17.4	17.0	16.8	16.6
International stores		**428**	454	468	480	455
International selling space (m sq ft)		**5.2**	5.9	6.1	6.0	5.8
Staffing (full-time equivalent)						
UK		**53,273**	53,562	52,388	52,247	54,678
International		**5,655**	6,202	6,507	6,849	6,498

1. Based on continuing operations.
2. Excludes accrued interest.

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 17/18 £m	FY 16/17 £m	%
UK Revenue			
Like-for-like	9,252.2	9,338.8	(0.9)
Net new space	358.8	102.9	
Statutory Total	**9,611.0**	**9,441.7**	**1.8**

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 17/18 £m	FY 16/17 £m	%
International Revenue			
At constant currency	1,087.2	1,211.3	(10.2)
Impact of FX retranslation	–	(31.0)	
At reported currency	1,087.2	1,180.3	(7.9)

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
International owned retained and franchise revenue growth at constant currency	Movement in revenue per the Income Statement	Sales from closure markets	The period-on-period change in revenue relating to those international markets in which the Group continues to trade subsequent to the completion of the International exit strategy 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 the International exit programme and exchange rate fluctuations on the period-on-period reported results.

	FY 17/18 £m	FY 16/17 £m	%
International Revenue			
Reported currency	1,087.2	1,180.3	(7.9)
Owned exit	(66.4)	(192.3)	
Owned retained and franchise	1,020.8	988.0	3.3
Impact of FX translation		23.5	
Owned retained and franchise at constant currency	1,020.8	1,011.5	0.9

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 adjusting 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.
Adjusting 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 quantum or are consistent with items treated as adjusting in prior periods. 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 planned by, and reported to the Board and the Operating Committee.
EBIT before adjusting items	EBIT[2]	Adjusting items (see Note 5)	Calculated as profit before the impact of adjusting items, net finance costs and tax. This measure is used in calculating the Return on Capital Employed for the Group.

GLOSSARY CONTINUED

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Income Statement Measures continued			
Profit before tax and adjusting items	Profit before tax	Adjusting items (see Note 5)	Profit before the impact of adjusting 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 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	Adjusting items (see Note 5)	Profit after tax attributable to owners of the parent and before the impact of adjusting 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.
Adjusted diluted earnings per share	Diluted earnings per share	Adjusting items (see Note 5)	Profit after tax attributable to owners of the parent and before the impact of adjusting 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 adjusting items	Effective tax rate	Adjusting items and their tax impact (see Note 5)	Total income tax charge for the Group excluding the tax impact of adjusting items divided by the profit before tax and adjusting items. This measure is an indicator of the ongoing tax rate for the Group.
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 debt 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 statements 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 adjusting 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	Not applicable	Calculated as the purchase of property, plant and equipment, investment property and intangible assets during the year less proceeds from asset disposals excluding any assets acquired or disposed of as part of a business combination.
Return on capital employed	None	Not applicable	Calculated as being EBIT before adjusting items divided by the average of opening and closing capital employed which are defined above. The measures used in this calculation are set out below: EBIT before adjusting items: FY 17/18 £m 670.6; FY 16/17 £m 690.6 Average capital employed: FY 17/18 £m 4,785.3; FY 16/17 £m 5,031.6 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. It is calculated year-on-year.

	FY 17/18 £m	FY 16/17 £m
EBIT before adjusting items	670.6	690.6
Average capital employed	4,785.3	5,031.6

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.

IMPORTANT NOTICE

NOTICE OF ANNUAL GENERAL MEETING 2018

WEMBLEY STADIUM, WEMBLEY LONDON HA9 0WS

Tuesday 10 July 2018 at 11am

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if you reside elsewhere, another appropriately authorised financial adviser. If you have sold or otherwise transferred all your shares in the Company, please forward this document and the accompanying form of proxy to the purchaser or transferee, or to the stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

NOTICE OF MEETING 2018

DEAR SHAREHOLDER

"I am pleased to invite shareholders to the 16th Annual General Meeting of Marks and Spencer Group plc."

AMANDA MELLOR GROUP SECRETARY

M&S WEBSITE

Our corporate website, **marksandspencer.com/thecompany**, is the principal means we use to communicate with our shareholders. There is a wealth of information online including:

- ☑ **A copy of our full Annual Report, which includes our Strategic Report.**
- ☑ **All the latest M&S news, press releases and investor presentations.**
- ☑ **A detailed account of our approach to corporate governance at M&S.**

ANNUAL GENERAL MEETING ("AGM")

The AGM is an important day in our calendar and is the Board's opportunity to present the Company's performance and strategy to shareholders and to listen and respond to your questions.

The AGM will be held at Wembley Stadium, Wembley, London, HA9 0WS. This venue offers superb facilities and is accessible by bus, rail and tube.

More details about the day and how to get there, including a map, can be found on page 129 of this Notice.

The formal Notice of Meeting follows this letter. The meeting will start at 11am, with light refreshments available before the meeting and following its conclusion. After the meeting, a lunch bag will be provided for you to enjoy either at the venue or during your onward journey.

If you cannot attend the meeting, we would still like to understand the themes and issues of concern to you, as shareholders. You may send your comments by e-mail to **chairman@marks-and-spencer.com** with the heading AGM 2018.

YOUR VOTE COUNTS

Your vote is important to us. You can:

- Register your proxy vote electronically by logging on to our Registrar's website, **sharevote.co.uk**, or by using the service offered by Euroclear UK & Ireland Limited for members of CREST.
- Complete and return the enclosed proxy form.
- Attend and vote at the AGM.

VOTING

The accompanying proxy form invites you to vote in one of three ways for each of the resolutions: 'for', 'against' or 'vote withheld'.

Voting on all resolutions will be by way of a poll. Your vote counts whether you are able to attend the meeting or not and we think poll voting is the most democratic approach as the proxy results are added to the votes of shareholders present.

The results of the voting will be announced through a Regulatory Information Service and will be published on our website **marksandspencer.com/thecompany** on 10 July 2018 or as soon as reasonably practicable thereafter.

If you have already voted by proxy you will still be able to vote at the meeting and your vote on the day will replace your previously lodged proxy vote.

In 2017, all resolutions were passed at the meeting with votes ranging from 89.57% to 99.99% in favour.

EXPLANATORY NOTES

An explanation of each of the resolutions being proposed at the AGM is set out on the following pages.

EXPLANATORY NOTES TO THE RESOLUTIONS

TO RECEIVE THE REPORTS AND ACCOUNTS 1

The Board asks that shareholders receive the Strategic Report, Directors' Report, and the financial statements for the 52 weeks ended 31 March 2018, together with the report of the auditor.

APPROVAL OF THE DIRECTORS' REMUNERATION REPORT 2

The Directors' Remuneration Report is provided on pages 50 - 62 of the Annual Report. It sets out the pay and benefits received by each of the directors for the year ended 31 March 2018. In line with legislation this vote will be advisory and in respect of the overall remuneration package.

FINAL DIVIDEND 3

The Board proposes a final dividend of 11.9p per share for the year ended 31 March 2018. If approved, the recommended final dividend will be paid on 13 July 2018 to all shareholders who were on the Register of Members at the close of business on 1 June 2018.

ELECTION OF DIRECTORS 4 – 9

The directors believe that the Board continues to maintain an appropriate balance of knowledge and skills and that all the non-executive directors are independent in character and judgement. This follows a process of formal evaluation which confirms that each director makes an effective and valuable contribution to the Board and demonstrates commitment to the role (including making sufficient time available for Board and Committee meetings and other duties as required). In accordance with the UK Corporate Governance Code and in line with previous years, all directors will again stand for election or re-election, as relevant, at the AGM this year. Biographies are available on pages 26 and 27 of the Annual Report, with further details available on our website, **marksandspencer.com/thecompany**.

APPOINTMENT OF FUTURE DIRECTORS 10 – 12

On 10 January 2018, the Company announced that Humphrey Singer would join the Board as Chief Finance Officer, and on 21 May 2018, the market was notified of the proposed appointments of Katie Bickerstaffe and Pip McCrostie as a Non-Executive Directors.

Humphrey is an experienced Finance Director with an extensive track record in finance roles in retail and brands.

Katie has wide-ranging experience of retail transformation from a career in a variety of functions in leading UK retailers and consumer companies.

Pip brings extensive experience of finance and transactions from a career at Ernst & Young where she transformed and led the Global Corporate Finance business.

The Board is pleased to recommend Humphrey, Katie and Pip for election by shareholders at the Annual General Meeting and they will be formally appointed to the Board following their election.

Biographical details are given on pages 26 and 27 of the Annual Report.

APPOINTMENT AND REMUNERATION OF AUDITOR 13 – 14

On the recommendation of the Audit Committee, the Board proposes in resolution 13 that Deloitte LLP be re-appointed as auditor of the Company.

Resolution 14 proposes that the Audit Committee be authorised to determine the level of the auditor's remuneration.

RENEWAL OF THE POWERS OF THE BOARD TO ALLOT SHARES 15

Paragraph (A) of this resolution would give the directors the authority to allot ordinary shares of the Company up to an aggregate nominal amount equal to £135,397,323 (representing 541,589,293 ordinary shares of 25p each). This amount represents approximately one-third of the Company's issued share capital as at 21 May 2018, the latest practicable date before the publication of this Notice.

In line with guidance issued by the Investment Association ("IA"), paragraph (B) of this resolution would give the directors authority to allot ordinary shares in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount equal to £270,794,647 (representing 1,083,178,587 ordinary shares), as reduced by the nominal amount of any shares issued under paragraph (A) of this resolution. This amount (before any reduction) represents approximately two thirds of the issued ordinary share capital of the Company as at 21 May 2018, the latest practicable date before the publication of this Notice.

The authorities sought under paragraphs (A) and (B) of this resolution will expire on the date of the AGM in 2019 or on 1 October 2019, whichever is sooner. The directors have no present intention to exercise either of the authorities sought under this resolution except, under paragraph (A), to satisfy options under the Company's share option schemes; however, the Board wishes to ensure that the Company has maximum flexibility in managing the Group's capital resources.

As at the date of this Notice, no shares are held by the Company in treasury.

DISAPPLICATION OF PRE-EMPTION RIGHTS IN CERTAIN CIRCUMSTANCES 16

The directors are also seeking authority to allot ordinary shares for cash without first offering them to existing shareholders in proportion to their existing holdings.

The power set out in resolution 16 would be limited to:

(a) allotments or sales in connection with pre-emptive offers, or (b) otherwise up to an aggregate nominal amount of £20,309,599 (representing 81,238,394 ordinary shares). This aggregate nominal amount represents approximately 5% of the issued ordinary share capital of the Company as at 21 May 2018, being the latest practicable date before the publication of this Notice.

In respect of the power granted under resolution 16(B), the directors confirm their intention to follow the provisions of the Pre-Emption Group's Statement of Principles regarding cumulative usage of authorities within a rolling three-year period where the Principles provide that usage in excess of 7.5% of the issued ordinary share capital of the Company should not take place without prior consultation with shareholders.

The directors have no current intention to allot shares except in connection with employee share schemes.

The Company has issued 8,589,748 ordinary shares representing 0.53% of issued share capital over the past three years on a non-pre-emptive basis.

If approved, the authority sought under this resolution will expire on the date of the AGM in 2019 or on 1 October 2019, whichever is sooner.

EXPLANATORY NOTES TO THE RESOLUTIONS CONTINUED

AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES 17

Authority is sought for the Company to purchase up to 10% of its issued ordinary shares, renewing the authority granted by the shareholders at previous AGMs.

The directors have no present intention of exercising the authority to purchase the Company's own shares; however, this authority would provide them with the flexibility to do so in the future, if the prevailing market conditions made such purchases in the best interests of shareholders generally.

Ordinary shares purchased by the Company pursuant to this authority may be held in treasury or may be cancelled. It remains the Company's intention to cancel any shares it buys back rather than hold them in treasury. The Company currently holds no shares in treasury. The minimum price, exclusive of expenses, which may be paid for an ordinary share is 25p. The maximum price, exclusive of expenses, which may be paid for an ordinary share is the highest of:

(i) an amount equal to 105% of the average market value for an Ordinary Share for the five business days immediately preceding the date of the purchase; and

(ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out.

The Company has options outstanding over 43 million ordinary shares, representing 2.65% of the Company's issued ordinary share capital as at 21 May 2018, the latest practicable date before the publication of this Notice.

If the existing authority given at the 2017 AGM and the authority now being sought by this resolution were to be fully used, these options would represent 2.94% of the Company's ordinary share capital in issue at that date.

NOTICE OF GENERAL MEETING 18

In accordance with the Companies Act 2006 (the "2006 Act"), the notice period for general meetings (other than an AGM) is 21 clear days' notice unless the Company:

(i) has gained shareholder approval for the holding of general meetings on 14 clear days' notice by passing a special resolution at the most recent AGM; and

(ii) offers the facility for all shareholders to vote by electronic means.

The Company would like to preserve its ability to call general meetings (other than an AGM) on 14 clear days' notice. This shorter notice period would not be used as a matter of routine, but only where the flexibility is merited by the business of the meeting and is thought to be in the interests of shareholders as a whole.

Resolution 18 seeks such approval and, should this resolution be approved, it will be valid until the end of the next AGM. This is the same authority that was sought and granted at last year's AGM.

AUTHORITY TO MAKE POLITICAL DONATIONS 19

The 2006 Act prohibits companies from making any political donations to EU political organisations or independent candidates, or incurring EU political expenditure, unless authorised by shareholders in advance.

The Company does not make, and does not intend to make, donations to EU political organisations or independent election candidates, nor does it incur or intend to incur any EU political expenditure.

However, the definitions of political donations, political organisations and political expenditure used in the 2006 Act are very wide. As a result, this can cover activities such as sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling certain public duties, and support for bodies representing the business community in policy review or reform.

Shareholder approval is being sought on a precautionary basis only, to allow the Company and any company which, at any time during the period for which this resolution has effect, is a subsidiary of the Company, to continue to support the community and put forward its views to wider business and government interests, without running the risk of inadvertently breaching legislation.

The Board is therefore seeking authority to make political donations to EU political organisations and independent election candidates not exceeding £50,000 in total and to incur EU political expenditure not exceeding £50,000 in total. In line with best practice guidelines published by the IA, this resolution is put to shareholders annually rather than every four years as required by the 2006 Act. For the purposes of this resolution, the terms 'political donations', 'political organisations', 'independent election candidate' and 'political expenditure' shall have the meanings given to them in sections 363 to 365 of the 2006 Act.

RECOMMENDATION

Your directors believe that the proposals described above are in the best interests of the Company and its shareholders as a whole and recommend you to give them your support by voting in favour of all the resolutions, as they intend to in respect of their own beneficial shareholdings.

Yours faithfully,

Amanda Mellor Group Secretary

7 June 2018

MARKS AND SPENCER GROUP PLC

NOTICE OF MEETING 10 JULY 2018

Notice is hereby given that the Annual General Meeting of Marks and Spencer Group plc (the "Company") will be held at Wembley Stadium, Wembley, London, HA9 0WS on Tuesday 10 July 2018 at 11am (the "AGM") for the purposes set out below.

Resolutions 1 to 15 and 19 will be proposed as ordinary resolutions, and resolutions 16 to 18 will be proposed as special resolutions.

1. To receive the Strategic Report, Directors' Report, and the financial statements for the 52 weeks ended 31 March 2018, together with the report of the auditor.

2. To approve the Directors' Remuneration Report.

3. To declare a final dividend of 11.9p per ordinary share.

To elect the following directors who are seeking annual re-election in accordance with the UK Corporate Governance Code:

4. Archie Norman

5. Steve Rowe

6. Vindi Banga

7. Alison Brittain

8. Andy Halford

9. Andrew Fisher

To appoint the following directors with effect from 10 July 2018

10. Humphrey Singer

11. Katie Bickerstaffe

12. Pip McCrostie

To view our Board biographies go to the Investors section of our corporate website, **marksandspencer.com/thecompany**.

13. To resolve that Deloitte LLP be, and is hereby, re-appointed as auditor of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

14. To resolve that the Audit Committee determine the remuneration of the auditor on behalf of the Board.

15. DIRECTORS' AUTHORITY TO ALLOT SHARES

To resolve that the directors be and are hereby authorised generally and unconditionally to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company:

(A) Up to a nominal amount of £135,397,323 (such amount to be reduced by any allotments or grants made under paragraph (B) below in excess of such sum); and

(B) Comprising equity securities (as defined in section 560(1) of the Companies Act 2006) up to a nominal amount of £270,794,647 (such amount to be reduced by any allotments made under paragraph (A) above) in connection with an offer by way of a rights issue:

(i) To ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) To holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary, and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter.

The authorities conferred on the directors to allot securities under paragraphs (A) and (B) will expire on the date of the AGM of the Company to be held in 2019 or on 1 October 2019, whichever is sooner, unless previously revoked or varied by the Company, and such authority shall extend to the making before such expiry of an offer or an agreement that would or might require relevant securities to be allotted after such expiry, and the directors may allot relevant securities in pursuance of that offer or agreement as if the authority conferred hereby had not expired.

16. DISAPPLICATION OF PRE-EMPTION RIGHTS

To resolve as a special resolution that, subject to the passing of resolution 15, the directors be empowered to allot equity securities (as defined in the Companies Act 2006) for cash under the authority given by that resolution (set out in this Notice of Meeting), and/or to sell ordinary shares held by the Company as treasury shares for cash, as if section 561 of the Companies Act 2006 did not apply to any such allotment or sale, provided that such authority be limited:

(A) To the allotment of equity securities and sale of treasury shares in connection with an offer of, or invitation to apply for, equity securities (but in the case of the authority granted under paragraph (B) of resolution 15, by way of a rights issue only):

(i) To ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) To holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

(B) In the case of the authority granted under paragraph (A) of resolution 15 and/or in the case of any sale of treasury shares, to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (A) above) up to a nominal amount of £20,309,599 and shall expire at the conclusion of the AGM to be held in 2019 or on 1 October 2019, whichever is sooner (unless previously revoked or varied by the Company in general meeting), provided that the Company may before that date make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority ends and the directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not ended.

17. COMPANY'S AUTHORITY TO PURCHASE ITS OWN SHARES

To resolve as a special resolution that the Company is authorised for the purposes of section 701 of the Companies Act 2006 to make one or more market purchases (as defined in section 693(4) of the Companies Act 2006) of its ordinary shares of 25p each ("Ordinary Shares"), such power to be limited:

(A) To a maximum number of 162m Ordinary Shares.

(B) By the condition that the minimum price which may be paid for an Ordinary Share is 25p and the maximum price which may be paid for an Ordinary Share is the highest of:

(i) an amount equal to 105% of the average market value of an Ordinary Share for the five business days immediately preceding the day on which that Ordinary Share is contracted to be purchased; and

(ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out, in each case, exclusive of expenses,

such power to apply until the end of the AGM to be held in 2019 or until 1 October 2019, whichever is sooner, but in each case so that the Company may enter into a contract to purchase Ordinary Shares which will or may be completed or executed wholly or partly after the power ends and the Company may purchase Ordinary Shares pursuant to any such contract as if the power had not ended.

18. CALLING OF GENERAL MEETINGS ON 14 DAYS' NOTICE

To resolve as a special resolution that a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

19. POLITICAL DONATIONS

To resolve that in accordance with section 366 of the Companies Act 2006 the Company and any company which, at any time during the period for which this resolution has effect, is a subsidiary of the Company, be and are hereby authorised:

(i) to make political donations to EU political organisations or independent election candidates not exceeding £50,000 in total; and

(ii) incur EU political expenditure not exceeding £50,000 in total, in each case during the period commencing on the date of this resolution and ending on the date of the AGM of the Company to be held in 2019 or on 1 October 2019, whichever is sooner.

By order of the Board
Amanda Mellor, Group Secretary
7 June 2018, London

Registered office Waterside House, 35 North Wharf Road, London W2 1NW.

Registered in England and Wales
No. 4256886.

NOTES

1. Biographies of the directors seeking election are given in the Annual Report on pages 26 and 27, including membership of the principal committees. The terms of the current directors' service contracts are such that all executive director appointments may be terminated by the Company giving 12 months' notice and by the individual giving six months' notice; non-executive directors have agreements for service which can be terminated on three months' notice by either party; the Chairman has an agreement for service which requires six months' notice by either party.

2. Registered Shareholders: Members are entitled to appoint a proxy to exercise all or any of their rights to attend, speak and vote on their behalf at the AGM. Members may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this Notice. If you do not have a proxy form and believe that you should have one, or if you require additional proxy forms (to appoint more than one proxy), please contact our shareholder helpline on 0345 609 0810 or, alternatively, you may photocopy the enclosed proxy form. Please indicate the number of shares in relation to which each proxy is authorised to act in the box below the proxy holder's name. Please also indicate if the instruction is one of multiple instructions being given, and if a proxy is being appointed for less than your full entitlement, please enter the number of shares in relation to which each such proxy is entitled to act in the box below the relevant proxy holder's name. The proxy form accompanying this Notice assumes you wish to vote on all your shares in the same way. To vote only part of your holding or to vote some shares one way and some another, please contact the shareholder helpline. All proxy forms must be signed and should be returned together.

3. If you would like to submit your vote electronically, please visit **sharevote.co.uk**, where there are full instructions, and submit your vote by no later than 11am on Friday 6 July 2018. You are advised to read the terms and conditions of use. If you return paper and electronic instructions, those received last by the Registrar before 11am on Friday 6 July 2018 will take precedence. Electronic communication facilities are available to all shareholders and those that use them will not be disadvantaged.

4. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

5. To be valid, any proxy form or other instrument appointing a proxy must be received by post (during normal business hours only) or by hand at Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA no later than 11am on Friday 6 July 2018.

6. The return of a completed proxy form, other such instrument or any CREST proxy instruction (as described in paragraph 14 on page 128) will not prevent a shareholder attending the AGM and voting in person if he/she/they wishes to do so.

7. Indirect Shareholders: Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

8. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 2 to 6 does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

NOTES CONTINUED

9. To be entitled to attend, speak, and vote at the meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be entered on the Register of Members of the Company by 6.30pm on Friday 6 July 2018 (or, in the event of any adjournment, 6.30pm on the date which is two working days prior to the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend, speak and vote at the meeting.

10. The following documents are available for inspection at an agreed time at the Company's registered office: Waterside House, 35 North Wharf Road, London W2 1NW. Please ring +44 (0) 20 8718 9888 during normal business hours on any weekday (excluding public holidays). These documents will also be available for inspection at Wembley Stadium, Wembley, London HA9 0WS from 10am on 10 July 2018 until the conclusion of the AGM.

(i) Copies of the executive directors' service contracts.

(ii) Copies of the non-executive directors' letters of appointment.

(iii) Copies of the directors' Deeds of Indemnity.

(iv) A copy of the Articles of Association of the Company.

11. Shareholders are advised that, unless otherwise specified, the telephone numbers, website and email addresses set out in this Notice or proxy forms are not to be used for the purpose of serving information or documents on the Company, including the service of documents or information relating to proceedings at the Company's AGM.

12. As at 21 May 2018 (the latest practicable date before the publication of this Notice) the Company's issued share capital consists of 1,624,767,881 ordinary shares carrying one vote each. Therefore, the total voting rights in the Company as at 21 May 2018 are 1,624,767,881.

13. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM and any adjournment thereof by using the procedures described in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

14. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST proxy instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instruction, as described in the CREST manual (available via **euroclear.com**). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Equiniti (ID RA19) by 11am on Friday 6 July 2018. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which Equiniti is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

15. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his/her/their CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred in particular to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

16. The Company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

17. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member, provided that they do not do so in relation to the same shares.

18. Under section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to:

(i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or

(ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

19. Any member attending the meeting has the right to ask questions. The Company must have cause to answer any such question relating to the business being dealt with at the meeting but no such answer need be given if

(A) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information,

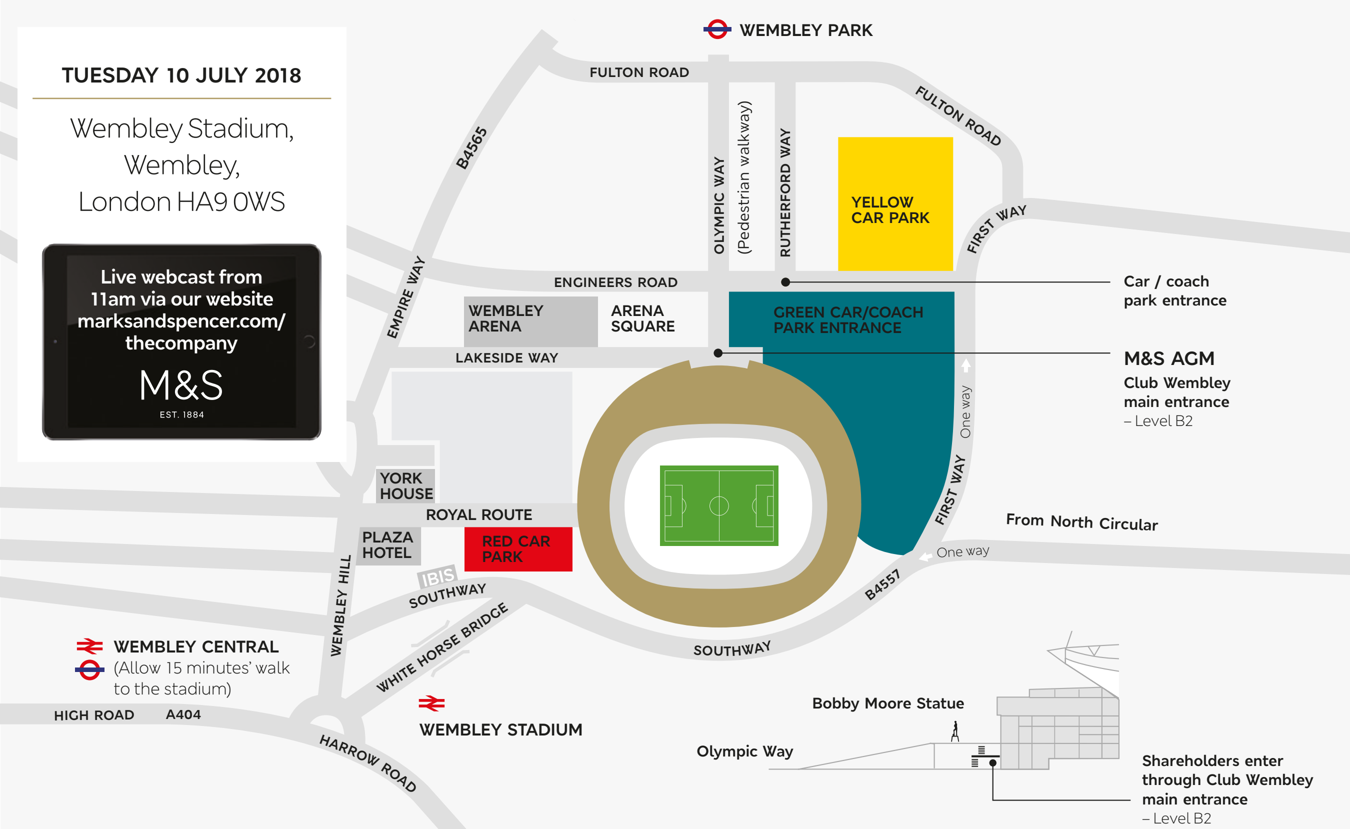
(B) the answer has already been given on a website in the form of an answer to a question, or

(C) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

20. A copy of this Notice, and other information required by section 311A of the Companies Act 2006, can be found at **marksandspencer.com/thecompany**.

21. Please see the letter dated 7 June 2018 from the Group Secretary on pages 123 to 125 for further explanatory notes.

AGM LOCATION



TRAVEL FROM THE STATION TO THE VENUE

Following feedback during last year's meeting we have looked again at the shareholder journey from the station to the venue. Unfortunately, due to location restrictions, we are unable to offer support from the station and you will be required to make your own way to the venue. Please be advised that this is at least a ten minute walk. If you are unable to make this unassisted, please do ensure that you have arranged alternative transport. There is a paid-for carpark available to shareholders and taxis are permitted to drop-off in front of the venue.

TIMINGS

Date:	**Tuesday 10 July 2018**
9.30am	Doors open, registration begins. Question Desk opens in the Bobby Moore Room on level 1. Tea and coffee available.
10.15am	Doors to the Great Hall open. Please make your way to the Great Hall on level 3 where hosts will direct you to your seats.
11.00am	AGM begins.
1.00pm	(approximately) AGM closes. The results of the poll will be released to the London Stock Exchange once collated.

ADMISSION

Admission will be through the Club Wembley Main Entrance on Level B2 (see map above). Please plan to arrive before 10.30am to allow enough time for registration and security clearance, bringing your attendance card with you.

This is either attached to your proxy form, Notice of Availability, or, for those registered for electronic communications, is attached to the email you will have received. This will help us to register you more swiftly.

SHAREHOLDERS WITH DISABILITIES

Wembley Stadium is easily accessible by wheelchair users and has lift access inside. There will also be an assisted hearing loop system in The Great Hall. For further information on the facilities at the venue, please call Wembley Stadium direct on: 020 8795 9748 or 020 8795 9660.

SECURITY

Security measures will be in place to ensure your safety. Please note that bag searches will be in operation and any items deemed inappropriate will be removed and stored until the end of the event. It is highly unlikely, but should it be required, body searches may also be in operation. Flash photography is not allowed at the AGM.

TRANSPORT

Wembley Stadium is well served by numerous public transport links. In line with our Plan A commitments, we recommend that shareholders use these to travel to the meeting if possible.

London Underground and Main Line Railway Stations Wembley Stadium is served by three stations:

- **Wembley Park (600m walk)** – Jubilee and Metropolitan lines. There is only one lift to street level at this station, so please allow sufficient time to make your way to the venue.
- **Wembley Stadium (750m walk)** – on the Chiltern Main Line, linking London Marylebone and the Midlands, Oxfordshire and Buckinghamshire.
- **Wembley Central (2km walk)** – Bakerloo line and London Overground. Bus routes 83, 92 and 182 run towards Wembley Stadium from stop CM.

For further information regarding your journey, please contact Transport for London travel information on 0343 222 1234, or visit tfl.gov.uk.

CAR PARKING

For those who wish to travel to the AGM by car, there is parking available in the Yellow Car Park. The location of the car park is indicated on the map above. Parking is operated by APCOA and car park spaces are pay on foot machines on departure. The postcode is HA9 0EG.

SHAREHOLDER INFORMATION

ANALYSIS OF SHARE REGISTER

Ordinary shares

As at 31 March 2018, the Company had 162,250 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 will be higher than indicated below.

Range of shareholding	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of issued share capital
1 – 500	85,304	52.57	16,054,377	0.99
501 – 1,000	30,922	19.06	23,142,759,	1.42
1,001 – 2,000	23,732	14.63	34,129,521	2.10
2,001 – 5,000	15,736	9.70	48,161,629	2.96
5,001 – 10,000	4,051	2.50	27,912,783	1.72
10,001 – 100,000	1,964	1.21	46,238,368	2.85
100,001 – 1,000,000	402	0.25	136,053,851	8.37
1,000,001 – Highest	139	0.08	1,293,064,058	79.59
Total	**162,250**	**100.00**	**1,624,757,346**	**100.00**

Category of shareholder	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of issued share capital
Private	157,312	96.96	178,948,977	11.01
Institutional and corporate	4,938	3.04	1,445,808,369	88.99
Total	**162,250**	**100.00**	**1,624,727,346**	**100.00**

USEFUL CONTACTS

Marks and Spencer Group plc
Registered Office
Waterside House, 35 North Wharf Road, London W2 1NW
Telephone +44 (0)20 7935 4422
Registered in England and Wales (no. 4256886)

General queries
Customer queries: 0333 014 8555
Shareholder queries: 0345 609 0810

Or, email
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 and outside the UK +44 (0)121 415 7071

Online: **help.shareview.co.uk** (from here, you will be able to securely email Equiniti with your enquiry).

Students
Please note, students are advised to source information from our website.

Additional documents
An interactive version of our Annual Report is available online at **marksandspencer.com/annualreport2018**.

Additionally, the Annual Report (which contains the Strategic Report) is available for download in pdf format at marksandspencer.com/thecompany. Alternatively, call 0800 591 697.

Group Secretary and Head of Corporate Governance
Amanda Mellor

2018/19 FINANCIAL CALENDAR AND KEY DATES

31 May 2018	Ex-dividend date – Final dividend
1 June 2018	Record date to be eligible for the final dividend
10 July 2018	Annual General Meeting (11am)
13 July 2018	Final dividend payment date for the year to 31 March 2018
7 November 2018*	Results – Half Year†
15 November 2018*	Ex-dividend date – Interim dividend
16 November 2018*	Record date to be eligible for the interim dividend
January 2019*	Results, Quarter 3 Trading Update†
11 January 2019*	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.

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 on p30. For more general queries, shareholders should consult the 'Investors' section of our corporate website.

MANAGING YOUR SHARES ONLINE

Shareholders can manage their holdings online by registering with Shareview, a secure online 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.

To find out more information about the services offered by Shareview and to register, please visit **shareview.co.uk**.

DIVIDENDS

Subject to the relevant Board and shareholder approvals, dividends are paid in January and July each year. Shareholders who receive their dividend payments directly into their bank accounts will receive an Annual Dividend Confirmation in January, covering both dividend payments made during the tax year.

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.

SHAREGIFT

If you have a very small shareholding that is uneconomical to sell, you may want to consider donating it to ShareGift (Registered charity no. 1052686), a charity that specialises in the donation of small, unwanted shareholdings to good causes. You can find out more by visiting **sharegift.org** or by calling +44 (0)207 930 3737.

SHAREHOLDER SECURITY

An increasing number of shareholders have been contacting us to report unsolicited and suspicious phone calls received from purported 'brokers' who offer to buy their shares at a price far in excess of their market value. It is unlikely that firms authorised by the Financial Conduct Authority (FCA) will contact you with offers like this. As such, we believe these calls are part of a scam, commonly referred to as a 'boiler room'. The callers obtain your details from publicly available sources of information, including the Company's share register, and can be extremely persistent and persuasive.

Shareholders are cautioned to be very wary of any unsolicited advice, offers to buy shares at a discount, sell your shares at a premium or requests to complete confidentiality agreements with the callers. **Remember, if it sounds too good to be true, it probably is!**

More detailed information and guidance is available on our corporate website. 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 is available on the Action Fraud website **actionfraud.police.uk**.

WEBCAST

For shareholders unable to attend the AGM, the meeting will be webcast live from 11.00am via our corporate website. This will be publicly available to all internet users and will also be available to view online after the event. To register to view the webcast, please visit the website and follow the relevant links. Shareholders attending the AGM should be aware that the proceedings of the meeting will be filmed for the purposes of this webcast. M&S reserves the right to retain and use footage or stills for any purposes, including Annual Reports, marketing materials and other publications. If you have any queries about the AGM or the contents of this document, please call Marks & Spencer Group Secretariat on +44 (0)20 8718 9888.

INDEX

This report is printed on Cocoon preprint 100 offset, a 100% recycled paper made from post-consumer waste. Cocoon is manufactured to the certified environmental management system ISO 14001.

Designed and produced by **Friend www.friendstudio.com**
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CPI Colour are ISO 14001 certified, CarbonNeutral®, Alcohol Free.

M&S
EST. 1884

We can trace ALL our beef right back to every farm and animal

We're the only national retailer who can say that.

WE TRACE IT. SO YOU CAN TRUST IT.