Marks and Spencer Group plc Annual report and financial statements 2012

Only at YOUR M&S

Annual report and financial statements 2012

Highlights of the year

FINANCIAL HIGHLIGHTS

Group revenue	Underlying Group operating profit	Underlying Group profit before tax
£9.9bn ↑2.0%	£810.0m ↓1.8%	£705.9m ↓1.2%

Group profit before tax	Underlying earnings per share	Interim + final dividend
£658.0m ↓15.7%	34.9p ↑0.3%	6.2p+10.8p =17.0p ↔ level

UK

Our UK turnover has a broadly even split between Food and General Merchandise (Clothing and Home). With 731 UK stores, we sell high-quality, great value food and are the UK market leaders in womenswear, lingerie and menswear.

Clothing & Home revenue	Food revenue	Number of UK stores
£4.2bn ↓0.9%	£4.7bn ↑3.9%	731 ↑28 stores

See page 15

MULTI-CHANNEL

However they shop with us – in stores, online or by phone – we aim to provide the best and most convenient shopping experience for our customers, from purchase through to delivery.

Multi-channel* revenue	Weekly site visits	Shop Your Way
£559m ↑18%	3.4m ↑11.2%	455 ↑11 stores

See page 26

INTERNATIONAL

With 387 stores in 43 territories across Europe, the Middle East and Asia, we are growing our international presence to make the M&S brand more accessible to customers around the world.

International revenue	International stores	Territories
£1.1bn ↑5.8%	387 ↑26	43 ↑1 new territory

See page 28

PLAN A

We aim to become the world's most sustainable retailer and our eco and ethical programme is at the heart of how we do business.

Total Plan A commitments	Commitments achieved	Commitments on target
180	138 ↑43	30

See page 30

* Excluding VAT and is generated across the UK and International business. Last year published including VAT.

“In a challenging marketplace M&S has performed well, as we continue to make progress against our plans.”

Marc Bolland
Chief Executive Officer

See page 08 for the Chief Executive’s overview

Get the latest shareholder information online

Viewing our online reporting suite keeps shareholders fully up to date whilst helping us achieve our Plan A objectives.

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

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

How We Do Business Report
Read more about our progress this year in our How We Do Business Report 2012 at marksandspencer.com/hwdbreport2012

Plan A
For highlights of our performance against Plan A go to page 30 of this report. For more detailed information about Plan A go to marksandspencer.com/plana

Discover more – go online
Wherever you see the ‘discover more’ logo in this report it’s an indication that we have video content about the relevant project in our online version of the annual report marksandspencer.com/annualreport2012

Chairman's statement

"Our plan has stood the test of continued evaluation and debate."

Robert Swannell
Chairman

DIVIDEND

Interim dividend paid on 13 January 2012
6.2p per share

Final dividend to be paid on 13 July 2012
10.8p per share

Total dividend for 2011/12
17.0p per share

My first full year as Chairman has been one of continued progress for M&S. Our executive team has driven forward our business plans with consistency and pace. The strategy, set out by Marc Bolland in November 2010, withstood the test of continued evaluation by the Board. Despite challenging market conditions that have put ongoing pressure on our customers' budgets, we are all agreed on our course. The key now is execution of our strategy to become an international, multi-channel retailer.

As a Board, we have undertaken an ordered transition towards our now established governance structure. We have in place a talented group of individuals with a rich mix of experience. We are unified by a shared ambition to guide M&S to the very best future; delivering sustainable growth as an international, multi-channel retailer.

Performance and dividend

In a tough market, M&S has made progress on a number of fronts, with sales up 2%. Our results demonstrate a good performance against our strategic goals. We made important improvements in our UK business – enhancing our stores and products and strengthening our brand. Our Multi-channel business grew ahead of the market and we saw double digit growth in our priority international markets.

We are committed to delivering consistent returns to our shareholders. We intend to pay a final dividend of 10.8p; in line with the dividend policy set out last year.

Governance and the Board

Last year, I set three clear priorities for the Board:

- First, to debate and agree the best strategy for the Company and hold the executive team accountable for its execution;
- Second, to ensure we have the most talented team to execute this strategy and plan effectively for their succession;
- And finally, to set the tone of 'doing the right thing', supported by the right governance structures and their effective implementation.

Over the last 12 months we maintained our focus on these key aspects and will continue to do so in the year ahead.

With implementation of our strategy underway, the Board provided ongoing enquiry and support to our executive directors; ensuring they deliver the business plan effectively and efficiently in a difficult trading environment.

We looked carefully at our Board composition, considering the skills required to better inform our debate. We recognised the need to strengthen our consumer and international experience and were therefore delighted to welcome our two new non-executive directors; Vindi Banga and Miranda Curtis, both of whom have abundant expertise in these fields. We will continue to ensure that we have the right balance of skills as we move forward.

Louise Patten and Sir David Michels retired this year. I would like to thank them both for their considerable contributions to the Board and I must pay particular tribute to David in his roles as Deputy Chairman and Senior Independent Director. I am delighted that Jan du Plessis agreed to succeed David as Senior Independent Director.

Having the right people in this business is critical to our success. Over the last 12 months the Board has devoted more time to ensuring we have the best team to deliver the best results, not just today but over the longer term.

As set out by Marc Bolland on page 14, our executive directors are part of a strong Management Committee, which was further strengthened this year by the arrival of Laura Wade-Gery as Executive

Our governance principles

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

See page 42 for Leadership

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

See page 44 for Effectiveness

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

See page 45 for Accountability

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

See page 49 for Shareholder Engagement

Director, Multi-channel E-commerce. We continued to look ahead; focusing on developing leadership and future talent across the business to secure robust succession plans.

How we do business

I believe that openness and transparency lie at the heart of good business practice. This applies as much to our readiness to embrace the rapid change in a digital world, as it does to our willingness to be accountable for how we do business or learn when we make mistakes.

Nowhere is this ethos more evident than in Plan A. Five years since launch, our environmental and ethical programme continues to be at the heart of how we do business. We have made M&S a more efficient and more innovative business; setting ourselves ambitious targets and holding our progress up for continual scrutiny, as we further encourage our customers and suppliers to get involved in Plan A. We think it is right to continue to set ourselves a high bar in this area. Our customers, our shareholders and our employees expect this of us and it makes good business sense.

As a Board, we listened to the objective feedback we received from last year's independent Board evaluation and conducted a further external review of our effectiveness this year. Details of how we have implemented actions as a result of these findings are outlined on page 44 of the Governance section.

Shareholder engagement

The Notice of Meeting that accompanies this report highlights some changes that will be included in our AGM. Future meetings will adopt a more businesslike approach, with an earlier start time and discussion focused on the performance of the Company.

None of this will inhibit your ability to come to our AGM and hold us accountable. That is your right and, as ever, we encourage all our shareholders, large or small, to attend.

As part of our ongoing efforts to engage more closely with our shareholders, we considerably improved the quality and quantity of information available online. I encourage you to explore and make use of these enhanced resources at marksandspencer.com/thecompany.

Looking ahead

We have a clear plan for the business and we are committed to its execution. We remain convinced that it is the right course.

The retail environment remains challenging in the UK, and in some of our international territories. This only serves to illustrate how vital it is that we are listening to our customers, staying true to our values and relentlessly and consistently executing our strategy. In doing so we will strengthen our business and our relationships with all our stakeholders in the future.

I never fail to be impressed by the dedication and pride in their work shown by our employees at all levels. I would like to thank them for all they do to make this business special.

Robert Swannell
Chairman

VIEW this annual report online
http://annualreport.marksandspencer.com

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Marketplace

Understanding the way our customers think and the factors that influence their shopping behaviour is key to our success. Our Customer Insight Unit (CIU) uses a combination of customer analytics and research to build an accurate picture of the trends and issues that affect the decisions our customers make.

What is happening in the marketplace?

2011/12 was a year of continued economic turbulence. UK Gross Domestic Product (GDP) was revised down during the year, as the Government faced the difficult challenge of tackling the deficit, whilst stimulating economic growth. However, consumers now have a greater understanding of how to manage their households through difficult times – enabling them to better plan ahead.

Despite this clarity, confidence remained fairly low as consumers felt the impact of inflation on their shopping, compounded by rising fuel prices. Though inflation eased in early 2012 consumers have not felt the full benefit, as incomes were hit by pay freezes, reduced hours and cancelled overtime.

These factors contributed to a decrease in market footfall of 1.6%, as consumers had to make tough choices. In this challenging environment, some well-known retailers were faced with administration and store closures. Others responded with heavy promotions – as retailers competed fiercely for consumers' limited disposable income.

There were moments of light relief during the year. The Royal Wedding in April 2011 and Christmas provided reasons to celebrate. However, these events were also characterised by heavy promotional activity and measured spending from consumers.

How does this affect our customers?

Since the downturn of 2008, consumers have been on a journey of acceptance and, for many, 2011/12 was the year they took charge of their budgets. Consumers acknowledged that some rising costs, such as petrol, were unavoidable, and instead focused on spend that they were able to manage. This positive action helped customers regain a sense of control, and optimism increased in the latter part of the year.

However, finances remained tight, with little flexibility in monthly spend. This pressure, coupled with a greater focus on housekeeping, meant consumers increasingly shopped to a planned list. They were not easily distracted by promotions, using them as a shopping strategy and actively seeking out value in the form of clear, straightforward deals on their planned purchases.

Priorities remained close to home, with a renewed emphasis placed on the value of family time, health and wellbeing. Careful planning helped consumers protect the things that mattered to them most, such as spending on their children. Special occasions such as Christmas and Mother's Day were also ring fenced, with an increased focus on more traditional celebrations at home.

Our Gift to You Christmas promotion ↑
Our high impact '25% off' focused deals over Christmas provided clear, stand-out value on the items our customers wanted most.

Consumer Barometer

We launched our Consumer Barometer in June 2010. This ongoing listening exercise enables us to track trends and plan ahead based on consumer sentiment and behaviour.

The Consumer Barometer comprises a monthly online survey of a changing sample of 4,000 people and covers a range of topics from spending patterns to future plans. We undertake additional in-depth research with a smaller sample, which provides us with more detailed insight into how consumers are thinking and what influences their decisions. We process the monthly results within one week, to give the business an instantaneous view of customer needs. This up-to-date insight allows us to be agile in our responses – from timely promotions to great product choice.

CUSTOMER INSIGHT ★★★★★

"I still want quality clothing that will last but I'm prepared to wait for a deal before I buy."

GFK CONSUMER CONFIDENCE INDEX

Product focus

Clothing: The overall market remained static, with little movement in either volume or value. Consumers continued to invest in staple items, looking for increased longevity and versatility. 'Wearability' was a priority as they sought stylish pieces that would last beyond the season, complementing and updating their existing wardrobe.

Limited budgets also meant consumers looked to retailers for clear fashion direction; wanting the confidence that they were buying the 'right' item to refresh their look in line with each season's trends.

Quality remained important and customers recognised the merits of buying into higher price tiers, using promotions as a way to make these more affordable. Value was front of mind and we took steps to address this with our 'Outstanding Value' campaign explained on page 18. However, spending on children's clothing was ring fenced as female consumers in particular put family priorities before themselves.

Through clearer differentiation of our sub-brands – supported by dedicated advertising – we made it easier for customers to find the right items for them to refresh their look. Improved visual merchandising also helped us show customers how to wear the latest trends.

Home: The housing market continued to be sluggish and sales of furniture and other big ticket items remained slow. Consumers found it difficult to justify purchasing until replacements could not be postponed any longer. A sentiment of 'making do' prevailed, but with socialising at home taking the place of going out, consumers refreshed and updated their homes with smaller accessories.

Segmenting our Home offer under more distinctive lifestyle categories has helped provide customers with more inspiration for easy room updates.

Food: Growth in the food market this year came largely from price inflation. Intense competition between supermarkets resulted in a constant stream of promotions, many of which left consumers feeling confused. Consumers used promotions as a strategy to reduce weekly spend and wanted genuine value from uncomplicated deals on the items on their shopping list.

Food has been at the heart of customers' celebrations at home. Consumers looking to treat themselves needed reassurance they were getting something truly special and turned to trusted retailers, especially for important occasions. Our promotions catered for this determination to enjoy time with the family, as set out on page 16. Consumers' willingness to spend on products that matter also played to our strengths, as we continued to innovate and expand our healthy eating ranges.

Macro-economic factors have made everyday value a growing priority for consumers. The launch of our new Simply M&S range showcases the fantastic value available on over 500 of our customers favourite food products.

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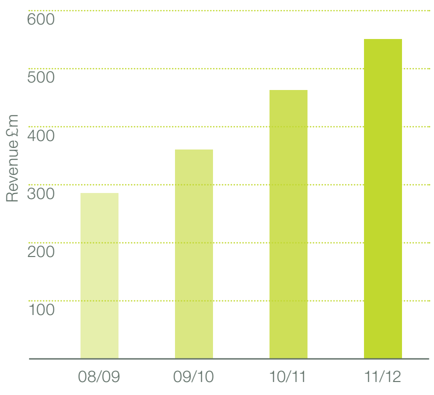
Marketplace continued

MULTI-CHANNEL SALES



How are our customers shopping?

This year, customers told us that shopping was not just about spending their limited budget wisely. They wanted to enjoy their experience and feel inspired, engaged and valued by retailers. As a result, service was seen as a key differentiator and, in a confusing promotional landscape, customers really valued the assistance of helpful and knowledgeable employees.

More consumers chose to shop across a combination of shopping channels. This trend was supported by the dramatic growth of smartphone and tablet ownership in the UK. Online and mobile channels provided consumers with a more convenient way to research and buy, and many saw it as a 'safer' way to shop – reducing the temptation of store browsing.

Our customers are increasingly active online and women aged 45 to 55 spend more time online than any other age group. As a result, we've provided more engaging content to help inform their online research and provide reassurance that they are making sound purchases. We've also integrated digital innovation, such as our new Style Online offer explained on page 27, into our stores, to add value to customers' shopping experience.

International

Ongoing pressures in the Eurozone resulted in challenging trading conditions in markets such as Greece, the Czech Republic and the Republic of Ireland. However, there was strong GDP growth in some markets including Russia, the Middle East, China and India.

Our strategy is aligned with these growth opportunities and we are focusing our expansion on existing markets such as India, the Middle East and the Shanghai region of China. In doing so, we are reducing our dependency on the UK economic cycle and maximising the efficiency of our existing global supply chain and infrastructure.

Across our international customer base, there was a consistent demand for quality. Our British heritage, coupled with our brand values, supported this position – particularly on Food, with traditional products such as tea and biscuits performing well. In Clothing, we know customers recognise M&S quality, but want more clarity around our fashion offer. Launched in autumn 2011, our Autograph campaign (page 17) has helped better showcase our style credentials. The international roll-out of our new store format will make it easier for customers to identify the signature style of each of our clothing sub-brands.

How does Plan A help us respond to market pressures?

Plan A, our 180-point eco and ethical plan, helps us tackle the sustainability issues that face all major retailers. With key raw materials under pressure, Plan A helps us develop a more sustainable supply chain – focusing on areas such as cotton and sustainable fishing.

In a challenging economic environment, Plan A enables us to run a more efficient business too – reducing waste and energy use. In turn, we are sharing our learning with our 2,000 suppliers worldwide – enabling them to reduce their own manufacturing costs and create a more sustainable future.

In a competitive marketplace, Plan A provides a point of difference. M&S is well known for its sustainability credentials and is seen as a leader by important stakeholders in the sector. In addition, this year we worked hard to engage customers in new and exciting initiatives such as our Beach Clean project, explained on page 30.

CUSTOMER INSIGHT ★★★★★

"I'm planning to enjoy this summer with a traditional celebration with my family and friends."

Mobile sales
Purchasing from mobile phones increased by over 200% in the last 12 months.

Looking ahead

Consumers are ready for another challenging year – feeling more prepared and in control. With a tight rein on their budgets, value will be more important than ever – especially on everyday items. They are protecting their spend for the key events of 2012 such as the Jubilee and Olympics and are making plans for truly special celebrations at home.

How M&S creates value for its shareholders

Over the last 128 years M&S has grown from a market stall to a multi-channel retailer with over 1,100 stores worldwide, employing more than 81,000 people. We remain true to our founding values of Quality, Value, Service, Innovation and Trust – ensuring our offer continues to be relevant to our customers. Our own brand model sets us apart from the competition – delivering 'Only at Your M&S' food, fashion and homeware to our customers.

Your M&S

Customers are at the heart of our business and through our Customer Insight Unit, we ensure their needs are recognised in all our business decisions. Through a combination of focus groups and consumer research we are in touch with over 17,000 customers every month, helping us anticipate their needs.

What we offer

Our longstanding history of innovation helps us lead the way with first-to-market products across food, fashion and homeware. We are the UK's leading clothing retailer and offer high-quality food, with a focus on freshness, convenience and speciality. As an own-brand retailer our products are unique and we further differentiate our offer through exclusive collaborations and a careful selection of the very best international food brands.

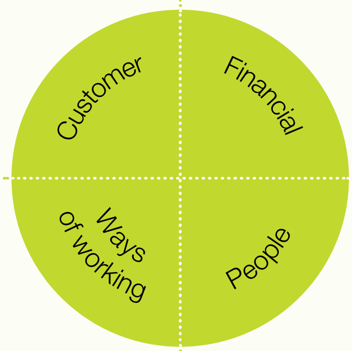
Reaching our customers

Our products are sold through 731 UK stores and 387 internationally. Over 93% of the UK population is within in a 30-minute drive of a full line M&S store and our franchise partnerships ensure our Simply Food offer is available in the most convenient locations – from railway stations to motorway services. Our fully mobile-enabled website makes M&S accessible 24/7 and we're combining the best of web and store service, as well as offering new channels, to make it even easier to shop with M&S.

How we create value for our shareholders

Customer
Delighting customers with innovative, 'Only at Your M&S' products, supported by an easy and enjoyable shopping experience across all our channels.

Financial
Driving profitable growth through increased sales and effective cost and margin management.



Ways of working
Delivering continuous improvement across all operations – underpinned by our Plan A commitment to drive sustainability.

People
Engaging employees in our plans and ensuring we have the right people to deliver our growth ambitions.

Investing in our people

We continually engage and involve our people in our plans to ensure they fully understand the vital role they each play. We communicate with our employees across a range of channels and measure engagement annually. From the Board down, we are focused on developing leadership and future talent to secure strong succession and deliver our growth ambitions.

Innovative ways of working

Across the business we promote a culture of continuous improvement – encouraging employees and our suppliers to find new, more efficient ways of doing things. We have an ongoing programme to restructure our supply chain – implementing new systems and improving our operational execution. Underpinning this is our commitment to Plan A – creating a sustainable business model for the long term.

Protecting Your M&S

Protecting the business from both operational and reputational risk is an essential part of our Board's role. We take a holistic view of the risks facing M&S – both now and in the future – by considering external competitor and economic factors, our core operations, key business change activity, as well as emerging future risks. Action plans to address these risks are in place across the business to help ensure our long-term sustainable growth. Details of our risk management and mitigation plans are outlined on page 46 of our Accountability section.

Chief Executive's overview

In 2011/12 M&S has performed well, with sales increasing by 2%. In a challenging environment, we held market share, as our customers continued to recognise our exceptional value and unrivalled quality.

As we navigate the business through the short term, we remain focused on our longer-term ambitions. Our plan for M&S – which I set out last year – is being delivered at pace. We have made significant progress; encouraging our customers to reappraise M&S and take a closer look at what we offer.

The first part of our plan focuses on our UK business and this year we gathered real momentum; enhancing our brand, developing our Clothing, Home and Food offer and making our stores easier to shop.

Brand

Our brand position 'Only at Your M&S' continued to underpin all our campaigns, reminding customers of the unique products that make M&S truly special. Putting the spotlight on these exclusive innovations increased sales. This year we also launched our first ever sub-brand advertising to support the transformation of the likes of Autograph and Limited Collection from 'labels' into distinctive, standalone brands. Steve Sharp provides more information on page 16.

Healthy food ↓
Our Simply Fuller Longer and count on us™ brands are now the number one and two UK healthy eating brands on a 12 month basis.

Clothing and Home

In Clothing and Home we saw a mixed performance with sales down 0.9%. Lingerie, Menswear and Kidswear all performed strongly and our core Home departments of bedding and bath, kitchen and dining also delivered good growth. However, we experienced more challenging conditions in Womenswear and in big ticket furniture. In Home, our performance was impacted by our withdrawal from technology.

We worked hard to ensure that our pricing structure and promotions were right for our customers. This meant balancing demand for great value 'good' items, with opportunities to invest in our 'better' and 'best' ranges. We highlighted the style credentials of our core offering through the creation of our M&S Woman and M&S Man ranges and had a positive response to our interpretations of key trends.

Our 'Only at Your M&S' proposition was enhanced by three exclusive partnerships this year. In menswear we introduced the 'Savile Row Inspired' collection from acclaimed British tailor Richard James. We also launched unique design collaborations with Sir Terence Conran and Marcel Wanders. Kate Bostock explains more about our Clothing and Home performance on page 18.

Food

Our Food business delivered a good performance. Sales increased by 3.9%, despite continuing inflation pressures and modest space growth.

M&S Food is built on a strong heritage of innovation and quality, with a focus on freshness and convenience.

"Our plan for M&S is on track and customers are seeing the improvements."

Marc Bolland
Chief Executive Officer

REVENUE

Clothing & Home (GM)
4.2bn
↓ 0.9%

Food
4.7bn
↑ 3.9%

Multi-channel
£559m
↑ 18%

International
£1.1bn
↑ 5.8%

OUR PLAN

By 2015
- Drive UK like-for-like growth
- International multi-channel retailer
- Drive international presence

2012–2013
- UK space and like-for-like growth
- A leading UK multi-channel retailer
- International company

Focus on UK — Brand, Clothing, Home, Food, Stores

In-store environments
Improved in-store environment in 66 stores by 2011/12 year end.

66 stores

Our continued emphasis on innovation gave customers even greater choice, with around 1,900 new lines launched this year. We also showcased our great value and unrivalled quality through bigger, higher-impact promotions.

Customers trusted M&S quality and turned to us for the most important occasions, helping us deliver a strong Christmas in Food. As set out by John Dixon on page 21, we continued to differentiate M&S as a specialist food retailer, introducing authentic deli and bakery counters and launching 100 'unique to M&S' international brands.

Stores
Following a successful pilot, the roll-out of our new store format is now underway at a rate of one store a day, with completion expected in mid 2013.

The new look stores include clearly defined areas for each sub-brand as well as elements of theatre in the Food Halls. Customers have told us that these improvements have made our stores more inspiring and easier to shop.

Our new segmentation approach means that stores of equal size no longer carry an identical mix of product. Stock is now appropriately tailored to local demographics, which will help attract new customers and broaden our appeal to those who already shop with us.

Space
We continued to develop our UK store portfolio, through new stores, developments and extensions. This helped us deliver an improved Shop Your Way service for customers.

Multi-channel
We performed strongly across the internet and mobile channels, with Multi-channel sales up 18%. This year we introduced several new initiatives aimed at improving the customer experience. We extended the next-day delivery deadlines for online ordering and improved the functionality of our website. We also created brand new ways to shop with us, including the new M&S Outlet website and Style Online.

As set out by Laura Wade-Gery on page 26, we launched our first international websites in France and the Republic of Ireland.

International
Our International business delivered a good performance this year. We experienced double digit growth in our priority markets of India, China and the Middle East. We also paid particular attention to managing our operations in more challenging trading environments – including Greece, the Republic of Ireland and the Czech Republic.

We made good progress towards our goal of making M&S a more internationally focused business. Development of our key markets continued apace and we put our 'bricks and clicks' strategy into practice with a return to France.

Plan A
Plan A remains integral to the way we do business. Our environmental and ethical plan not only makes us a more efficient business, it contributed a net benefit of £105m this year too.

Our customers look to us to do the right thing – and that includes making it easier for them to live sustainable lives. We are encouraging them to become more involved in Plan A through inclusive initiatives such as our new 'shwopping' campaign.

Looking ahead
Though the economic outlook remains challenging, we are committed to the delivery of our plan to become a multi-channel, international retailer.

We will continue to manage the challenges of the short term – improving our existing business through a combination of innovation, an agile response to trends and a strong promotional agenda.

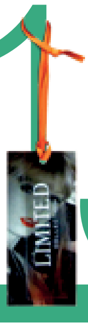
In the year ahead, we will be more in touch with our customers; the more we listen the better we will anticipate their needs and exceed their expectations. We will continue to invest for the future; encouraging customers – wherever we trade – to take a fresh look at M&S.

Marc Bolland
Chief Executive Officer

Our plan in action

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

Focus on the UK



15

Pilot stores
Following our successful 15 store trial, we had rolled out a fresh new look to 66 stores by the year end and will complete by mid 2013.

300

Launched Conran collaboration
A contemporary collection of over 300 products from this iconic designer is available online and in over 41 stores.

Multi-channel

Christmas Food to Order online
Sales increased by over 20%, as we made this service available online for the first time.

20%

3

Style Online trial in three stores
This award winning initiative extends the reach of our clothing sub-brands into smaller stores.

International

100

100 Champs Élysées
We returned to France with a brand new store in the heart of Paris, supported by an e-commerce offer.

387
stores

43
territories

Plan A

Carbon neutral operations
In January we became carbon neutral across all stores, offices, warehouses and delivery fleets operated by M&S in the UK and Republic of Ireland – the first major retailer in the world to do so.

0

Plan A products
31% of M&S products now have a Plan A quality, such as Fairtrade, animal welfare recognition or healthy eating – making it easier for our customers to make sustainable choices.

31%

Relaunch of clothing sub-brands
We relaunched our sub-brands, giving each a more distinctive identity.

1,900 new food lines
We launched 1,900 innovative new products, including 100 international brands exclusive to M&S.

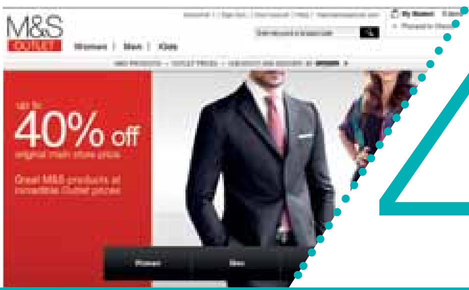
1900

Focus on the UK

This year we enhanced the strength of our brand, improved our core offer of Clothing, Home and Food and made our stores easier to shop.

See page 15

M&S Outlet online
In February 2012 we launched a brand new way to shop with M&S, offering up to 40% off clothing prices.



Shop Your Way
Our flexible shopping service is now available in 455 stores.

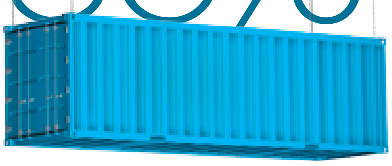
455

Multi-channel

We increased Multi-channel sales by 18% this year as we gave our customers greater access to our products and offered an improved shopping experience.

See page 26

35%



35% of International stock shipped direct to destination
Fully integrated supply chain operations have led to improved efficiency.

First International website
Our first local language, local currency website outside the UK launched in October 2011.

International

Our organisational structure now has a global outlook and a team with the capabilities to deliver growth in our priority markets.

See page 28

Forever Fish
We launched a major new campaign to help customers learn about fish and protect our beaches. Funded by profits from our 5p food carrier bag charge, the project supports the Marine Conservation Society.

5p

Shwopping
Our new sustainable fashion initiative is designed to change the way we shop for clothes and prevent one billion unwanted clothes from going to landfill every year.

1bn

Plan A

With 180 commitments across seven pillars – Plan A helps us reduce our environmental impact, develop new products and improve our local communities.

See page 30

Performance against our plan

Key Performance Indicators

Financial performance

GROUP REVENUE

£9.9bn ↑ 2.0%

£m	08/09	09/10	10/11	11/12
UK	8,164.3	8,567.9	8,733.0	8,868.2
International	897.8	968.7	1,007.3	1,066.1
Total	9,062.1	9,536.6	9,740.3	9,934.3

In November 2010 we set out a target to grow our revenues by £1.5bn to £2.5bn over the next three years. As a result of the deterioration in the economic environment since we set out our plan, we now expect to achieve a £1.1bn to £1.7bn increase in revenues.

UNDERLYING GROUP OPERATING PROFIT

£810.0m ↓ 1.8%

£m	08/09	09/10	10/11	11/12
UK	652.8	701.2	677.9	676.6
International	116.1	142.7	147.0	133.4
Total	768.9	843.9	824.9	810.0

Focus on the UK

UK MARKET SHARE
clothing and footwear

Value
11.7% ↔ level

Volume
12.4% ↔ level

Analysis In a challenging environment we maintained market share, as we offered customers greater choice at the same unrivalled quality and value. More information on our Clothing performance is set out on page 18.

Kantar Worldpanel Clothing and Footwear share 52 w/e 15 April 2012.

UK MARKET SHARE
food

3.8% ↔ level

Analysis In a competitive market, our food market share remained level, as customers continued to turn to M&S for great value and quality. Our performance in Food is detailed on page 21.

Kantar Worldpanel Food and Drink 52 w/e 15 April 2012.

AVERAGE WEEKLY FOOTFALL

20.3m ↓ 1.7%

11/12	20.3m
10/11	20.7m
09/10	21.0m
08/09	21.6m

Analysis Visits to our stores were down slightly in 2011/12. However, this was in line with the wider market, as customer concerns about rising petrol prices impacted footfall to stores.

Become a leading multi-channel retailer

MULTI-CHANNEL SALES

£559m* ↑ 18%

10/11 (£473.6)
09/10 (£366.1)
08/09 (£290.1)

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

* Excluding VAT. Last year published including VAT.

PERCENTAGE OF POPULATION WITHIN A 30-MINUTE DRIVE OF A FULL LINE STORE

93%

Analysis Our aim is for 95% of the population to be within a 30 minute drive of a full line store by 2015. This is helping us to deliver a leading multi-channel shopping experience.

Making Plan A how we do business

NET CARBON EFFICIENCY (IN TONNES CO_2e PER 1,000 SQ FT OF SALESFLOOR)

2006/07	2011/12	Improvement	2012 target
53	27	49%	0

M&S UK and Republic of Ireland operated stores, offices, warehouses and delivery fleet carbon emissions after deduction of carbon offsets effective from 1 Jan 2012. Target of zero net emissions per 1,000 sq ft achieved from 1 Jan 2012.

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

IMPROVE STORE ENERGY EFFICIENCY IN KWH PER SQ FT OF SALESFLOOR

2006/07	2011/12	Improvement	2012 target
67.9	49.1	28%	51.0

M&S UK and Republic of Ireland operated stores.

Why energy efficiency? Improving energy efficiency reduces greenhouse gas emissions and costs and helps to comply with new legislation introduced in 2011.

UNDERLYING GROUP PROFIT BEFORE TAX

£705.9m ↓1.2%

10/11 (£714.3m)
09/10 (£694.6m)
08/09 (£604.4m)

RETURN ON CAPITAL EMPLOYED

16.4% ↓0.3% pts

10/11 (16.7%)
09/10 (17.5%)
08/09 (16.8%)

GROUP PROFIT BEFORE TAX

£658.0m ↓15.7%

10/11 (£780.6m)
09/10 (£702.7m)
08/09 (£706.2m)

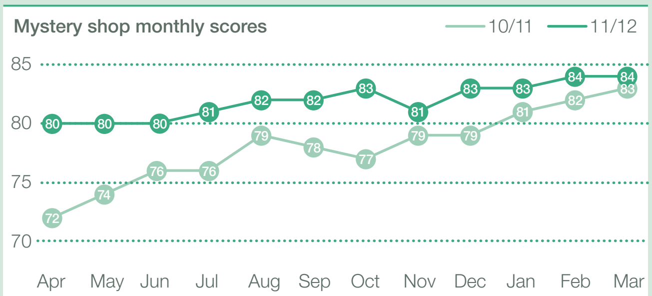
UNDERLYING EARNINGS PER SHARE

34.9p ↑0.3%

10/11 (34.8p)
09/10 (33.0p)
08/09 (28.0p)

2009/10 is stated on a 53 week basis

UK MYSTERY SHOPPING PROGRAMME



Average score
82%

Analysis Last year we rebased our mystery shopping scores to help us target even higher standards of customer service. We have seen ongoing improvement and achieved an average score of 82%, compared to 78% last year.

ANNUAL SPACE GROWTH

2.7%

Analysis In light of increased growth in Multi-channel, we have reviewed our space requirements for the future. We will continue to develop our space selectively, but expect to invest £200m less in our UK retail estate over the remaining two years of the plan. In the current year we expect space growth of c.3%, reducing to c.2.5% in the following year, with further reduction thereafter.

Become an international company

M&S INTERNATIONAL SALES

£1.1bn ↑5.8%

10/11 (£1,007.3m)
09/10 (£968.7m)
08/09 (£897.8m)

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

11/12	**£1,066.1m**
10/11	£1,007.3m
09/10	£968.7m
08/09	£897.8m

SEND NO OPERATIONAL WASTE TO LANDFILL (IN TONNES)

2008/09	2011/12	Improvement	2012 target
69,000	1,000	99%	0

Waste sent to landfill from M&S UK and Republic of Ireland operated stores, offices and warehouses. Target of zero operational waste to landfill achieved from February 2012.

Why no waste to landfill? Sending no waste to landfill makes more efficient use of resources, helps to reduce greenhouse gas emissions and in the longer term also reduces costs.

Read more about our progress this year in our How we do Business Report 2012 at marksandspencer.com/hwdbreport2012

People behind the plan

"It's not just the products that make M&S special, it's the people. I'm proud of the team that is driving M&S forward."

This year, the energy and enthusiasm of our people turned our plans into action and our customers are already noticing improvements. My sincere thanks go to all our employees across the business for their continued hard work in what has been a challenging year.

Marc Bolland
Chief Executive Officer

Management committee

"We're making it easier for customers to see the great quality, value and style we offer."

Kate Bostock
Executive Director, General Merchandise

"Our heritage of quality and innovation are enhancing our position as a specialist food retailer."

John Dixon
Executive Director, Food

"The M&S brand is one of our strongest assets; our campaigns continue to inspire customers to shop with us."

Steven Sharp
Executive Director, Marketing

"Our ongoing investment in the business will help us deliver our plan and support our growth ambitions."

Alan Stewart
Chief Finance Officer

"The customer is at the heart of our plans as we develop new and exciting ways to help them shop."

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

"We're growing our UK presence, ensuring our stores are in the most convenient locations for our customers."

Clem Constantine
Director of Property

"We're giving employees the skills they need to keep M&S special for our customers."

Tanith Dodge
Director of Human Resources

"We're committed to communicating our plan and its progress to all of our stakeholders."

Dominic Fry
Director of Communications and Investor Relations

"There's real momentum in our International business as our plans become reality."

Jan Heere
Director of International

"We've taken a fresh look at everything and given our stores an exciting new lease of life."

Nayna McIntosh
Director of Store Marketing and Design

"Good governance extends beyond the boardroom, supporting M&S in the UK and internationally."

Amanda Mellor
Group Secretary and Head of Corporate Governance

"We're passionate about great in-store service: like everything we do, it's the small things that make a big difference."

Steve Rowe
Director of Retail

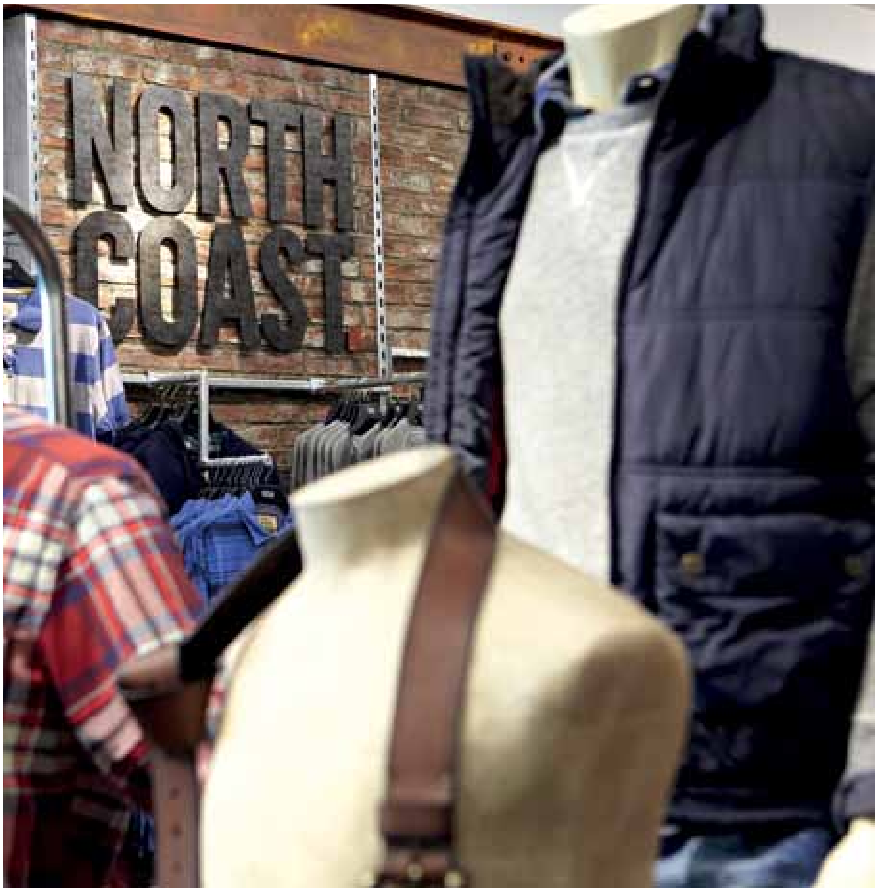
"Faster, on time deliveries, improved availability, shorter queues: these are the things that make life better for our customers."

Darrell Stein
Director of IT and Logistics

Our plan in action

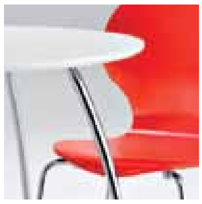
Focus on the UK

Last year we set out plans to invest in our UK business and enhance our already strong position in our home market. This programme is now well underway and over the last 12 months customers have started to notice the improvements we have made.



Stores
We are now rolling out our new store format at the rate of one a day until mid 2013. The new look and feel is helping customers take a fresh look at what we have to offer and customer recommendations at completed stores are around 10% higher than the rest of the portfolio. Find out more about the work we've done to improve our stores on page 24.

Brand
Discover how our 'Only at Your M&S' positioning has helped increase sales of our exclusive, innovative products on page 16.



Home
Find out on page 20 how our exclusive partnerships with iconic designer Terence Conran and European designer Marcel Wanders are encouraging customers to reappraise M&S Home.

Food
Our new look Food Halls are helping to enhance our position as a high quality specialist food retailer. We've introduced new fresh deli counters and added more authentic style bakeries. Customers are enjoying the new rustic, artisan feel of the bakeries and sales are up 25%. You can read more about our performance in Food on page 21.

Clothing
With the launch of M&S Woman and M&S Man we put the spotlight back onto the iconic, wardrobe staples that M&S does best. We also had our biggest ever year in Kidswear, with customers turning to M&S for great quality kids' clothing. Read more about the work we have done across Womenswear, Lingerie, Menswear and Kidswear on page 18.

Our brand

In such a competitive marketplace, it's been more important than ever to highlight the great value and quality we offer across M&S. This year, our campaigns served a dual purpose; reassuring our most loyal customers that we are meeting their needs and encouraging potential new shoppers to take a fresh look at M&S. Throughout the year we have showcased the very best 'Only at Your M&S' innovations; providing compelling reasons to shop with us.

"Our campaigns reassure customers that we are in touch with their needs."

Steven Sharp
Executive Director, Marketing

Listening to our customers

The clear message from customers is that they are budgeting carefully; ring fencing the things that matter to them most, such as special occasions and spending on children. We responded with promotions that addressed these priorities, such as our upbeat Kidswear 'Happy Half Term' offer and 'Our Gift to You' 25%-off deals in December, which delivered a record week for Menswear.

Launched in 2008, our iconic Dine In offer remains as relevant today as it was then. Coupled with our Christmas partnership with ITV's The X Factor (opposite), Dine In helped make M&S an essential part of Saturday nights at home; providing restaurant-quality food at an affordable price.

Showcasing our products

Our 'Only at Your M&S' positioning is a firm fixture in all campaigns; from unique innovations to the latest trends, it highlights what is new and different at M&S. This year we continued our successful innovation-led ads, showcasing products such as our unique Tummy Tuck swimwear, sales of which increased by 450%.

In Food, our product was the star of the show, demonstrating the lengths we go to in order to make our offer truly special. Our advertising around key dates such as Easter and Mother's Day confirmed why customers can trust M&S food for the most important occasions. We highlighted the provenance and quality of ingredients that set us apart from the competition and featured lines, such as our new Golden Hot Cross Buns, proved extremely popular, selling over 580,000.

Throughout the year, our Clothing campaigns featured wearable interpretations of the latest fashion trends, demonstrating how these styles work for all shapes and tastes. In the autumn, we ran two complementary TV ads, which brought together a collection of stunning womenswear looks to highlight the brand's total appeal.

In September 2011 we launched our first dedicated sub-brand advertising to highlight the distinctive brand personalities and help customers more easily pinpoint the range that suits their style. Renowned model David Gandy brought his relaxed, continental style to our Italian-influenced Collezione menswear and we introduced top model Rosie Huntington-Whiteley and Hollywood actor Ryan Reynolds as the faces of Autograph (opposite). Shot by iconic fashion photographer Rankin, a dynamic black and white campaign encapsulated the energy and ethos of Limited Collection. We also reinvigorated our core M&S fashion, with the launch of the M&S Woman and M&S Man.

2012 celebrations

2012 is a unique year for Britain – and we wanted to do something extra special to mark the occasion. With friends and family at the centre of celebrations, we launched our nostalgic 2012 spring TV campaign, featuring much loved M&S faces – including Twiggy and Gary Barlow. It harks back to an era of simple pleasures, showing how M&S can deliver all the ingredients to make a British summer truly great. Featured lines were well received and since airing we sold over 3,700 of the per una dress worn by Myleene Klass.

Looking ahead

We want to show that we are more in touch with our customers than ever before; anticipating their needs and in tune with the things that matter most to them. In the year ahead, we will continue to develop our sub-brand identities, inspire our customers and give them new reasons to shop with M&S.

discover more

Plan A Shwopping

In April we introduced 'shwopping' – fronted by Joanna Lumley. It's a sustainable fashion initiative to transform the way we shop. We're asking customers to exchange, or 'shwop', old or unwanted clothing – of any brand – when they buy a new garment in M&S stores. Clothes are then reused, recycled or resold by our partner Oxfam – giving millions of garments a life beyond landfill.

CUSTOMER INSIGHT ★★★★★

"The Autograph campaign feels stylish, contemporary and chic."

Autograph →
Our new faces perfectly encapsulate the elegance, sophistication and contemporary feel of Autograph; their worldwide appeal is a great fit for our most international brand. Autograph led the marketing campaign for our recent return to France and sales of the range at our flagship Champs Élysées store are among the highest across our entire portfolio.

M&S Money ↓
In a highly competitive market, M&S Money continued to be a name to trust; with over three million credit card customers. We have exciting plans for M&S Money in the year ahead, as we continue to develop our product offer.

M&S MONEY

The X Factor ↑
Watched by over 13 million people, our partnership with The X Factor put M&S at the heart of the weekend. This year's finalists appeared in our festive ad, singing an exclusive version of 'When You Wish Upon a Star'. Refreshed on a weekly basis in line with the show, customers told us it gave a more modern edge to our much anticipated Christmas ad.

Stories behind the campaign →
Social media channels such as Facebook, Twitter and Pinterest – as well as our own M&S TV channel – allow us to better tell the stories behind our campaigns. We now have the most engaged Facebook fanbase of any top 20 retailer, with over 625,000 fans and more than 75,000 Twitter followers. This year we launched M&S Stories, a new online community space that provides the latest news and expert insights.

Clothing and Home

In a highly competitive market, M&S remains the UK's first choice for clothing. Customers appreciated our interpretations of seasonal trends, underpinned by our continued focus on great value and quality. We delivered strong performances across Lingerie, Menswear and Kidswear but saw a more mixed performance in both Womenswear and Home. Overall Clothing and Home (GM) sales were down 0.9%, with Home impacted by our exit from Technology.

Actions against our plan

Introduced M&S Woman and M&S Man as our core clothing ranges

Relaunched all of our sub-brands

Segmented Home into lifestyle categories – Classic, Contemporary and Design

Womenswear

At M&S we cater for all women, whatever their style or budget. We have consistently offered quality clothing at great prices, and through the year we worked hard to provide the right pricing mix; meeting customers' demand for value but providing the opportunity to trade up into our 'better' and 'best' ranges. In the summer, we ran an Outstanding Value campaign, which saw us reduce prices on opening price lines to remind customers of the excellent value we offer in our 'good' ranges. We sold over 70,000 coloured chinos at £19.50 each, appealing to customers' wallets as well as their sense of style.

We made the seasons' key looks work for the M&S customer and launched a regularly refreshed core fast fashion range (opposite). Customers loved the contemporary twist we put on some of their favourite pieces such as court shoes, sales of which were up 77% on the year. We also added more dress options and responded to core customer feedback with an increase in longer length flattering sleeve choices.

Last year we promised to make the M&S clothing brand a destination in its own right. This core range represents around half of our offer and this year we took steps to revitalise the collection with the launch of M&S Woman (opposite).

We also relaunched our sub-brands, to give them more distinctive identities. Our per una brand is over ten years old and we have listened carefully to our customers to ensure the brand has evolved with them – reflecting the vibrant colours and feminine style they love. Our Limited Collection offers fashion forward style for a broad age range and helped attract younger shoppers, whilst the understated elegance of our Classics range continued to appeal to the more traditional customer. Our confident and sophisticated Autograph range and our Indigo Collection casualwear performed well, with sales up 9% and 16% respectively.

Lingerie and Beauty

We strengthened our position as the UK market leader in lingerie, as customers turned to us for the widest choice – from everyday cotton essentials to vintage-inspired glamour. During the year we refined our everyday t-shirt bra range to make it easier to shop and increased choice in footfall-driving lines such as hosiery, boosting sales by 7%. We offered stand-out value with high-impact promotions such as the '3 for £10' knicker offer, driving record performances on featured ranges such as our favoured Brazilian knickers, sales of which rose 49%.

Our success in lingerie was driven by stylish 'Only at Your M&S' innovation such as our Flatter Me™ range. Increased colour options and soft fabrics ensured our Heatgen™ warmwear was both pretty and practical; helping us grow further in the over 55 market. Our new Waistsculpt™ lingerie tapped into the popular 'Mad Men' trend for an hourglass silhouette and we sold over 74,000 items.

"This year we put the spotlight back on the iconic style and quality of M&S clothing."

Kate Bostock
Executive Director,
General Merchandise

CLOTHING HIGHLIGHTS

Womenswear market share
10.4%
↓ 0.5% pts

Menswear market share
12.1%
↑ 0.6% pts

Kidswear market share
6.8%
↑ 0.2% pts

Lingerie market share
27.4%
↑ 0.2% pts

Kantar Worldpanel Clothing and Footwear – value market share 52 w/e 15 April 2012

Plan A: British made hosiery
West Mill factory in Derbyshire became the first UK clothing factory to gain M&S eco-factory status. Employing environmentally friendly processes has helped the factory build a more sustainable future by creating a more efficient business. The site produces a third of all M&S hosiery and its UK location helps us quickly turn around fashion forward ranges, such as the featured Limited Collection.

First choice for schoolwear

We continued to innovate across our schoolwear this year, introducing Expandicuff on shirts – eliminating the need to undo buttons – and temperature-regulating Body Sensor tights. We also extended our sizing options, adding plus and slim fit options to both boys' and girls' school ranges.

Savile Row Inspired

In March we launched an exclusive collaboration with award-winning tailor Richard James. Taking inspiration from the best of British tailoring, Savile Row Inspired offers classically styled, hand finished tailoring in UK-made fabrics to our global customer.

Fast fashion

We introduced a regularly refreshed core fast fashion collection in M&S Woman, delivering the seasons' key looks in just six weeks. Customers loved our great value interpretations of trends such as colour blocking. All items were priced under £35 and we sold around 4,000 of the featured multi-striped top.

M&S Beauty

Beauty continued to grow by focusing on great value skin, bath and body ranges, as well as signature fragrances. We extended and upgraded existing ranges and teamed up with Ragdale Hall to create a new luxury Spa collection, with prices starting from just £6.

CUSTOMER INSIGHT ★★★★★

"M&S Woman is what I want from M&S; stylish clothes with a purpose."

M&S Woman

The ad campaign featuring Twiggy and Lisa Snowdon placed our stylish wardrobe 'must haves' firmly in the spotlight.

Clothing and Home continued

Menswear

Menswear delivered another good year, growing market share and improving its style credentials. The newly defined sub-brands helped reduce duplication across our ranges and enabled customers to more easily locate the right style for them.

This year we broadened our customer profile in Menswear, attracting a younger shopper whilst continuing to meet the needs of our core customer. Our casual North Coast collection helped us broaden appeal and delivered sales up 12%.

The launch of M&S Man boosted the profile of the affordable, iconic items in our core range, such as classic black chinos. Our reputation for unbeatable quality helped drive sales growth in heartland areas such as everyday essentials, up 11%.

Our Blue Harbour brand delivered modern updates on heritage-style knitwear and traditional tweeds, with sales up 183% and 81% respectively. Customers also responded well to the coordinated, continental style of Collezione, with our Linen Miracle™ formal jacket amongst the best sellers. Footwear and accessories performed particularly strongly under our sophisticated Autograph brand, as male shoppers became more confident in putting together a styled look.

Kidswear

With budgets stretched, parents trust M&S quality and value. We delivered our biggest ever year for Kidswear, with particularly strong performances in our baby and toddler and schoolwear ranges.

We continued to introduce new customers to the brand through our baby and newborn ranges, offering great innovations in supersoft yet hardwearing fabrics and affordable gifting options. Having worked hard to develop our baby offer over the last two years, these customers remained loyal and helped deliver good growth as they transitioned to our toddler ranges, sales of which were up 10%.

Our increasingly strong position in footfall-driving staples, such as sleepwear and essentials, provided a great opportunity for us to grow kids' fashion too. As parents shop for these everyday items, we have worked hard to attract them to more fashion-led pieces, with sales of our girls' Autograph range growing 14%.

Home

In a difficult market customers remained cautious about spending on big ticket furniture items, opting to update rooms with elements from our core ranges and smaller accessories. This environment, coupled with our exit from technology meant sales were down 10%.

We made good progress against our plan to segment Home into distinct lifestyle options – Classic, Contemporary and Design (below). The Classic range, designed in house, continued to represent the best of M&S Home and our hero departments of kitchen and dining, bedding and bath all delivered good growth. We catered for customers looking for affordable items to update their home by delivering great value, more choice and stronger fashion influences. We also worked hard to improve availability on these favourite lines.

Collaboration ↓

This year we launched our Conran Exclusive Design collection – comprising 314 lines across furniture, bedding, lighting – it forms the basis of our Contemporary offer. Our Christmas gift shop featured a new range of homeware products and accessories from leading European designer Marcel Wanders.

CUSTOMER INSIGHT ★★★★★

"It's not what you'd expect from M&S. Conran definitely makes Home feel more modern."

Looking ahead

With value remaining front of mind for customers, we will stay focused on providing the great quality products that they trust us to do well. We will provide customers with compelling reasons to buy, through appropriate interpretations of trends and regularly updated ranges. The roll-out of our new store format will strengthen the in-store presentation of our clothing brands, helping customers better identify the styles for them.

Food

Our Food business performed strongly in a tough market with total sales up 3.9% to £4.7bn and like-for-like sales up 2.1%. We maintained our focus on freshness, speciality and convenience and continued to lead the way with high quality, first-to-market products. Our customers benefited from greater choice across all our ranges – and our heritage of innovation kept them coming back to find something new and exciting in our Food Halls.

Actions against our plan

- Reinforced our position as a specialist food retailer
- Increased the number of product lines
- Improved in-store availability
- Introduced 100 new international brands, available only at M&S

Overview

Household budgets were under increasing pressure this year. However, customers remained loyal to M&S, trusting us to deliver great quality and exceptional value – especially at the most important times of the year. They also ensured that special occasions were ring fenced and were determined to enjoy important occasions such as Christmas and New Year.

Deals were important to customers looking to control their spending, without compromising on quality. We responded with high-impact, simple deals such as our 3 for £10 offer on meat and fish and the much loved Dine In, providing stand-out value in a heavily promotional marketplace. We also made efforts to protect customers from much of the inflation in commodity prices through better buying, more efficient stock management and improved operations.

During the year we also embarked on an exciting programme of changes to our Food Halls, reinforcing our status as a specialist food retailer and clearly differentiating our already strong proposition. We relaunched our in-store bakeries and introduced new deli counters to some of our stores, improving the usual appeal of our food offer. The new Food Halls deliver an exciting visual experience for customers that showcases the outstanding quality and freshness of our products.

Quality and value

Customers tell us that the quality of our food sets us apart from our competitors. During the year we improved the quality of many of our existing products, without increasing prices. For example, we made one of our all time lunch favourites even better value, adding 40% more prawns to our Prawn Mayonnaise sandwich. This increased sales by 21%. We also launched improved versions of our great value top-selling products, such as our Quiche Lorraine with 40% more cheese and 20% more bacon. Customers noticed this upgrade and independent quality scores increased as a result.

From our commitment to sustainable fishing to our Fairtrade partnerships, our close working relationships with suppliers help us deliver food that is ethically sourced and of the highest quality. Our high standards of animal welfare were recognised this year, with a Sustained Excellence award in the RSPCA Good Business Awards 2011. As part of Plan A, we also source as much food as possible from the UK and the Republic of Ireland. This year, we delivered record sales of English-sourced fruit, including the first ever English grown Rainier cherries; a much sweeter variety, which has previously only been available from US growers.

"Our new Food Halls showcase the quality and innovation that make M&S food truly special."

John Dixon
Executive Director, Food

FOOD HIGHLIGHTS

Sales
4.7bn
↑3.9%

Market share
3.8%
↔ level

Promotions ↓
The gourmet Dine In for £20 promotion for Valentine's Day – featuring a premium menu and an extra course – delivered a record performance, with almost 700,000 couples enjoying a romantic meal at home.

Plan A: Healthier milk
Working with our dairy farmers we developed Better For You milk, containing 6% less saturated fat than standard milk. Altering the cow's diet using only wholesome ingredients – such as grass, maize and rapeseed – helped improve herd health and fertility. Just one year will help remove 84 tonnes of saturated fat from our customers' diets.

Food continued

Quality

Deli and bakeries
With a focus on speciality breads, our new bakeries have a rustic, authentic feel. They provide freshly baked goods throughout the day and sales are up 25% since launch. Our new deli counters serve the very best fresh products including delicious plats du jour such as the Six Layer Lasagne and our Salmon Tian Appetiser.

Perfect plants, less waste
M&S is the first retailer in the world to use revolutionary technology to keep plants in top condition during transit, thereby reducing waste. M&S suppliers developed a compostable wood fibre pad that easily absorbs and releases water. Holding around 15 times its weight in water, the pad is packed under gift-bagged or potted plants, releasing water as the compost dries.

100

Flavours of the World
Our new Flavours of the World range showcases 100 of the very best speciality products from around the globe. The collection comprises authentic products including olive oils and chocolates. Many are sourced from small suppliers with limited or season-specific availability; and not found anywhere else on the UK high street.

What M&S does best
Customers turn to us at the most important times of the year, trusting us to deliver outstanding quality – and something different. In 2011, we delivered another great Christmas, introducing 600 seasonal lines and achieving over 20% increase on Christmas Food to Order sales.

600

Though budgets were stretched, customers didn't want to cut back on quality. This year we highlighted our great value through bigger, higher impact promotions. Now in its fourth year, our iconic Dine In promotion continued to increase in popularity, up 10% on last year. In February, we adapted the popular format with a traditional meal deal – offering a hearty main course such as Salmon en Croute, a potato side and a prepared vegetable dish all for £5. Customers responded well to the genuine value of the offer and we sold over 940,000 meals.

In addition to our promotional activity, we run weekly price checks against the competition to ensure our everyday products remain competitive. With value front of mind for our customers, we introduced Simply M&S, a range of over 500 products that highlights M&S quality at great everyday prices. Available in store since May 2012, we plan to extend the range further in the year ahead.

Innovation and choice
Customers come to M&S because they know they'll find something different each time they shop with us. We continued to lead the market with innovative new products and this year we introduced some 1,900 new lines.

Our food innovation provided convenient solutions to help time-pressed customers entertain and impress. In the autumn we launched the Dessert Menu range including show-stopper creations such as the Tarte aux Abricots and traditional favourites like the Profiterole Stack. Since launch it has become the number one chilled dessert brand in the UK. For the festive season, we made it easier for customers to entertain at home, with a new quick-cook turkey and a record 59 party food options. In the run-up to Christmas, we had our best ever week for party food, selling 2.3 million packs.

We worked closely with our suppliers during the year to deliver more innovation in quality produce. We launched the UK's first ever 'reverse season' British-grown asparagus, developed with grower John Chinn in the Wye Valley, which was available exclusively in M&S between September and November. We responded to the latest culinary trends, such as specialist poultry, and were the first high street retailer to provide free-range guinea fowl, as well as British-bred poussin.

This year we also offered more choice, with the aim of encouraging our regular customers to do more of their weekly shop with us. We conducted extensive research during the year – both online and in stores – to understand exactly what our customers wanted. As a result, we increased our core product catalogue by 1,000 lines. Among these were larger value packs for family shoppers, such as double concentrate fruit squash and 1kg bags of pasta, as well as a greater selection of scratch cooking ingredients.

Operations
We introduced our 'Customer Ready Food' initiative in all our stores during the summer. Our Food Halls now include zoned areas, which are 'owned' by employees on the shop floor. Employees are responsible for ensuring their section remains visually appealing and well stocked and their improved product knowledge allows them to offer more help to customers. Along with other measures, the initiative has contributed to a reduction in net waste of 10%.

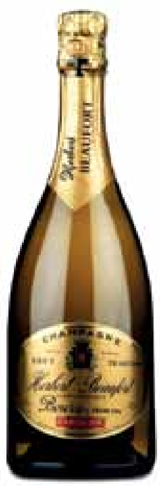
Our ongoing investment in new IT systems continued to improve on-shelf availability. We also made better use of available space to improve choice and redesigned our packaging, making it easier for customers to identify and select from the appropriate range.

Health

discover more

Healthy eating ranges →
We promoted healthy eating through count on us™ and Simply Fuller Longer: now the top two health brands in the UK market. We listened to our customers and introduced new additions to both these ranges during the year, keeping the menus fresh and appealing.

Award winning quality ↓
The exceptional quality of our food was acknowledged by numerous awards this year. This includes the best non-vintage Champagne for M&S Herbert Beaufort Brut at both the Decanter World Wine Awards 2011 and the International Wine Challenge 2011.



Looking ahead
2012/13 shows every sign of being another challenging year for food retailers. Customer spending will remain cautious and carefully planned. We will continue to build on our existing strengths and deliver more of what our customers expect from us: the highest quality food, an inspiring shopping experience, great product innovation and clear, stand-out value.

UK stores

This year we began work on delivering a more inspiring shopping experience to the 20 million customers that visit our stores every week. As we rolled out our new store format, we provided even higher standards of customer service, set against more challenging targets. At the same time, we continued to extend our UK store portfolio to ensure we had stores in the most convenient locations for all our customers.

Actions against our plan

Grew our UK store presence, including our Simply Food business

Began the roll-out of our new store format

Delivered a more localised product range for our customers

We continued to expand our UK store portfolio, adding over 400,000 sq ft of space this year through new stores, developments and extensions. We grew our presence in key developments and retail park sites and remained active in town centres, maintaining investment in our high street stores.

We have a pipeline of new stores and are committed to enhancing our position in major cities. This year's highlight was the opening of our 136,000 sq ft sustainable learning store at Westfield Stratford City, adjacent to the London Olympic Park. New store developments at Gloucester, Sheffield Crystal Peaks and Peterborough are underway and we are in the process of delivering four new stores in retail parks. Now in its tenth year, our convenient Simply Food offer continued to flourish and we opened 25 stores this year.

New look stores

Following a successful pilot scheme, our new store format (opposite) was rolled out to 66 stores by the year end. This is continuing at the rate of roughly a store a day, including stores in our ongoing modernisation programme.

As promised, the format delivers a more inspiring experience, with clearer brand differentiation and improved navigation. This includes defined brand areas that reflect the unique handwriting of each clothing sub-brand, so customers can quickly identify which best suits their style. The refreshed Food Halls support our position as a speciality food retailer – with revamped artisan bakeries and fresh deli counters. Fresh produce is now displayed in authentic wooden crates and flowers are presented in traditional floristry buckets.

We also completed our work to better segment our stores according to local demographics. This has ensured that we have the right product mix in place and allocate the correct amount of space in store to individual ranges.

Service in store

In a challenging trading environment, great service is more important than ever. Our stores met tougher service measures and achieved higher mystery shopping scores: 82% compared to 78% last year.

Our 'Customer Ready Food' initiative outlined on page 23 helped improve performance and in February 2012 we were ranked the UK's number one food retailer by the Institute of Customer Service.

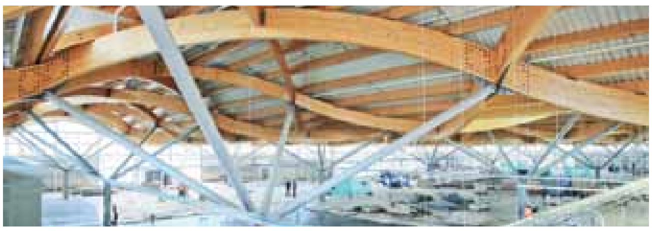
To deliver the best possible customer experience it's essential that we run an efficient business. This year we worked to reduce queue times, through increased use of self check-out tills, better tagging systems and improved scanning procedures at the till point. We continued to work closely with product teams on space, range and display planning and our new stock management systems improved on-shelf availability.

OUR STORES

Total UK portfolio	731
Premier	11
Major	42
High street	243
Outlet	47
Simply Food (owned)	168
Simply Food (franchised)	220

Looking ahead

In the year ahead we will continue the roll-out of our new store format. We will also launch our 'Customer Ready' initiative into Clothing and Home to help deliver an improved experience across entire store portfolio. As explained on page 26, we will continue to work closely with our e-commerce team to integrate our shopping channels to provide a great experience for our customers however they choose to shop.



Plan A: Sustainable stores

Opening in August, our Cheshire Oaks store will feature the latest sustainable building technologies – including retail firsts such as the use of Hempclad panels in the external walls and 100% FSC glulam timber in the roof. Rainwater harvesting will offset a significant proportion of the store's mains water requirement and 70% of the store's heat will come from heat reclaim and a biomass boiler.

CUSTOMER INSIGHT ★★★★★

"I love hearing about all the new things in store – the employees are really knowledgeable about the products."

Westfield Stratford City
Arranged over four floors, our new Westfield Stratford City store has created over 550 new jobs. It is home to a 26ft deli bar and all the inspirational features of the new store format. The store's unique location provides an opportunity to showcase the very best of M&S to an international audience.

Service

New look stores
The new format is already inspiring shoppers to take a fresh look at M&S. Customer recommendations at the updated stores are around 10% higher than the rest of the business.

10%

Knowledge to share
As part of our 'Customer Ready' service initiative, short videos from M&S experts – such as our fish buyer and our Master of Wine – are now uploaded twice a week to an online portal to help store colleagues share their passion for our products with customers.

Great service
This year we launched a new customer service training initiative – 'Small things, big impact'. The concept underpinned all our in-store activity and showed employees how even minor changes in behaviour and attitude can make a big difference to customers – and deliver better sales too.

Mystery shopper score:

82%

Multi-channel

This year we grew ahead of the market, with sales increasing 18%, as customers found it easier to shop with us in the way that suits them best. New innovations helped us better integrate our different shopping channels, allowing customers to shop online, via mobile or through in-store ordering and receive their goods directly or collect in store. We laid the foundations for future multi-channel growth, with a skilled team in place and our new platform build underway.

Actions against our plan

Increased multi-channel sales

Developing a leading multi-channel shopping experience

Building a platform for future international, multi-channel growth

More customers are now shopping with M&S online; we've grown our share of online traffic and have over 3.4m weekly visits, up 11%. This growth was supported by the increased use of smartphones and tablets, with sales from our mobile-enabled site up over 200%.

Customers increasingly rely on the convenience of online, with 26% of schoolwear and over a third of dresses bought this way. We made it even more convenient this year, extending next day delivery options and adding improved search functions. We also gave customers more choice, adding more online-exclusive products, boosting sales by 80%. We introduced product personalisation on essentials such as chinos and black dresses and gave customers a new opportunity to shop with us, launching M&S Outlet online (opposite).

Online is not only a place for customers to buy, it's where many come to browse and research too. M&S TV showcases our latest trends and innovations. This year it was viewed over 1.7 million times and encouraged customers to spend longer online. Product reviews were up 500% and are an increasingly popular way for customers to interact with M&S. Objective feedback makes other shoppers more likely to buy and provides invaluable insights that help us to improve products.

Developing a leading multi-channel shopping experience

With a flexible range of order and delivery options, Shop your Way continued to grow in popularity. The service encourages customers to shop across different channels, providing choices that fit with their busy lifestyles. For the first time, we made sale products available for in-store collection and 40% of Clothing and Home orders are now collected in store.

As our customers' shopping habits change it's essential that we change with them. As part of this, we delivered more choice and inspiration into our stores, with Style Online (opposite). New browse and order points were also added to enable customers to shop more of our product catalogue. We equipped advisors with iPads to offer more personal assistance to customers and add value to their in-store experience.

Over the year we launched a series of initiatives and trials to help us better understand how our customers interact with the latest technologies across both our retail and marketing channels (see opposite).

This year we made progress against our plans to become an international, multi-channel retailer, with the launch of our first international websites for the French (opposite) and Irish markets. We also appointed developers for our new site build, which will provide us with a robust platform to grow our multi-channel ambitions.

"Being truly multi-channel means making it possible for customers to shop 'Your M&S' in their way."

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

MULTI-CHANNEL HIGHLIGHTS

Revenue
£559m
↑18%

Site traffic
3.4m per week
↑11%

Looking ahead

Put simply, we want more of our customers to shop with us across more of our channels. To achieve this we will create new, inspirational opportunities to engage with M&S and deliver an even better customer experience. We will continue to provide more customers around the world with access to M&S products, as we grow our international e-commerce offer.

Plan A: Closed loop cashmere

We created an online infographic to tell the story behind our innovative recycled cashmere coat. The graphic explained how returned garments are collected, broken down and transformed into stylish Autograph coats. The infographic format made it easy to share across social networks and was one of the most read features on our M&S Stories site.

M&S OUTLET

M&S Outlet online
Our successful M&S Outlet format was launched online, offering even more customers access to fantastic discounts on our clothing ranges. The site received over 1.1 million visitors in its first six weeks and the buzz around the launch helped boost sales at our existing 47 M&S Outlet stores.

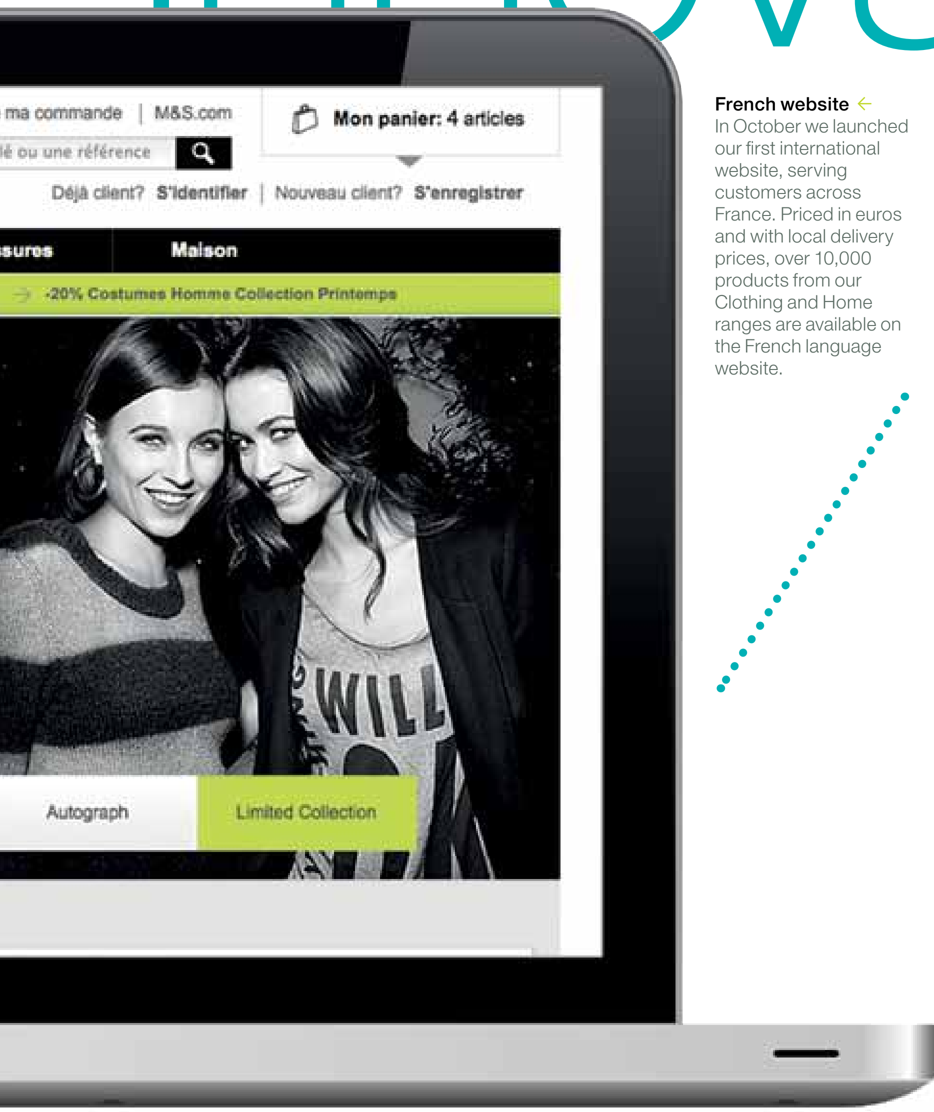
CONSUMER INSIGHT ★★★★★

"I love being able to view the full range online and then pick it up at my smaller local store."

Trialling new technology
This year we installed Wi-Fi in ten stores so customers could more easily access product information via QR codes on store décor. In February, the new Aurasma augmented reality app helped us bring the model on our Valentine's Day billboard at Waterloo Station to life. We also became the first UK retailer to create an app for Samsung's internet-connected TV.

To view the interactive ad
(you need an open internet connection)
1. Download and instal the 'Aurasma Life' app to your smartphone.
2. Open the Aurasma Life app and point the camera at the ad.

Innovation



French website
In October we launched our first international website, serving customers across France. Priced in euros and with local delivery prices, over 10,000 products from our Clothing and Home ranges are available on the French language website.

Christmas Food to Order
For the first time, our Christmas food was available to order online for collection in store. 40% of customers took advantage of the new service and total sales were up over 20% as a result.

Style Online
Style Online uses multimedia technology to extend the reach of our clothing sub-brands into smaller stores. Catwalk videos and our interactive outfit builder tool complement product samples in a boutique style environment. Customers can purchase products from order points or through a dedicated advisor.

Those with a QR reader can use the link below to view 'the Style Online' video

INNOVATION AWARDS 2012 WINNER

Overview
Strategic review
Financial review
Governance
Financial statements and other information

International

Our International business continued to grow, with sales up 5.8% to £1.1bn. This year we added 26 stores to our portfolio and entered new markets, giving us a total of 387 stores across 43 territories. We also established a new organisational structure to help us deliver our growth plans. Led by skilled international retailers, the team now combines M&S experience and fresh talent to spread new ideas and best practice across the business.

INTERNATIONAL HIGHLIGHTS

International revenue
£1.1bn

Stores
387

Territories
43

Actions against our plan

Growing International sales

Building a more international company

Growing in our priority markets and entering new markets with a 'bricks and clicks' approach

Building a more international company

This year we put in place a new structure – dividing the business into three regions; Europe, Asia and the Middle East. We appointed a director to lead each region, supported by a head of business development to drive new market growth. We also created an international visual merchandising team (opposite) to ensure M&S customers have a more consistent brand experience wherever they are.

We are operating as a more international business, having integrated international marketing and buying into the core teams. By using in-country knowledge and expertise, alongside local sourcing, we are delivering a more appropriate offer for each local market.

Priority markets

We are focused on the clear growth opportunities in our existing territories: China, India, Russia and the Middle East. Concentrated in the Shanghai region, our Chinese stores continued to perform strongly and we now have seven stores, having opened three this year. Working with our partner Reliance Retail, we accelerated growth in India to give us 25 stores in total. We added six new stores, including our first high street stores at Connaught Place and South Extension in Delhi. These flagship locations help build awareness of the M&S brand, complementing our existing mall offer.

Our franchise operations are central to our international plans (see opposite), and this year we opened 24 new stores with our 18 global franchise partners. With our partner Fiba, we've opened eight new Russian stores; expanding in key locations such as Moscow and new cities including Kazan. Working alongside Al-Futtaim, we grew our Middle East presence – opening five stores including a second store in Cairo, Egypt and three in the UAE.

In difficult trading environments we managed our costs tightly and took the difficult decision to close four stores across Greece and Eastern Europe. After identifying operational issues in our Czech business, we responded quickly taking full management control of the business (opposite).

In November we returned to the French market, with a clear 'bricks and clicks' strategy (opposite). This approach is central to our international expansion, both in existing and new markets; enabling us to combine stores, the web and digital technologies to tailor our channels for the way customers shop and quickly extend the reach of our brand. For example, we increased the product offer of our 1,400 sq m Paris store by adding touch screen browse and order points.

Looking ahead

With a new structure embedded, our priority is to grow our International business. We will continue to expand our presence in priority markets and work with existing partners to enter new markets with a clearly defined business plan. We will build awareness of the M&S brand with tailored marketing campaigns and will roll out our new store format across our international portfolio.

Plan A: UNICEF hanger recycling

We added a new angle to our hanger recycling by donating 57p for each box of hangers we recycle to UNICEF, the world's leading children's charity. This funds a three-year programme designed to reach the poorest communities in Mymensingh and Dhaka, Bangladesh, improving children's lives by providing health care, access to clean water and an education.

Addressing key issues →
We placed an experienced M&S retail team in our Czech operations to help refocus the business. We realigned pricing and introduced a new look format to our Prague store. These measures improved performance in this important region and we are now rolling this out across 48 stores in the Czech Republic, Poland, Slovakia, Lithuania, Latvia and Estonia.

Return to France →
Trading over three floors, our new Paris store occupies a flagship location on the iconic Champs Élysées. The store attracted over 2,600 customers on its opening day and we're now growing our presence in Paris, with plans announced for four further stores. Across France customers can also access M&S through our first international website.

Total Europe:
157 stores
four new stores opened (-1 net)

Total Middle East and North Africa:
122 stores
20 new stores opened (+16 net)

Total Asia:
108 stores
13 new stores opened (+11 net)

Growth

Strengthening franchise partnerships ↑
We want customers wherever we trade to experience the same M&S, regardless of the business model behind it. We aligned ourselves more closely with our franchise partners to provide more trading support in areas such as cataloguing and engaged them in the M&S brand at events such as our Partner Conferences.

International shipping
We've reduced the proportion of international goods shipped via the UK by 13% which improves efficiency, reduces costs and gets products to countries quicker. Over 35% of stock now moves direct to destination via our four regional hubs in Sri Lanka, China, Istanbul and Singapore.

35%

Looking good ←
With our new visual merchandising team we are establishing an international centre of excellence for product handling. Thanks to new guidelines, each clothing sub-brand is now displayed to its fullest potential in store – helping customers identify which fashion brand best meets their own style.

Plan A

Plan A is about doing the right thing – and encouraging our employees and customers to join us. In 2011/12, Plan A continued to make us more efficient; contributing £105m net benefit back into the business. Our fifth anniversary represents a significant milestone on the Plan A journey and since launch we have continued to raise the bar. We now have 180 commitments under seven pillars, which are driving our ambition to become the world's most sustainable major retailer. This year we achieved a further 43 commitments taking our total achieved to 138.

Involving our customers

In June 2011 we launched Forever Fish – a major new campaign to help customers learn about fish and protect our beaches and marine life. We have also invited our customers and our employees to participate in around 120 beach cleans across the UK and Ireland.

Through the year, customers enthusiastically supported Plan A events including our 'One Day Wardrobe Clearout' for Oxfam and the World's Biggest Coffee Morning for Macmillan Cancer Support. As set out on page 16, we've taken our Oxfam partnership even further with the launch of our 'shwopping' initiative.

How we do business

We continued to work closely with our farmers, growers and other suppliers to develop and implement sustainability standards. All employees who have direct contact with suppliers completed responsible buying training this year.

As detailed on page 24, we opened our new Sustainable Learning Store at Westfield Stratford City adjacent to the Olympic Park. We've also conducted trials on alternative fuels, including a small fleet of dual-fuel diesel and compressed natural gas vehicles, as well as the first hydrogen fuel cell powered fork lift trucks in the UK.

Climate change

In January 2012, we became carbon neutral across all stores, offices, warehouses and delivery fleets operated by M&S in the UK and Republic of Ireland – the first major retailer in the world to do so. Since 2006/07, we have improved the fuel efficiency of our Food and General Merchandise delivery fleets by 28% and 30% respectively and have reduced carbon dioxide emissions generated by refrigeration and air conditioning leakage by 54% per sq ft.

Waste

In February 2012 we achieved our commitment to send no waste to landfill from our stores, offices, warehouses and construction activities. Against a 2006/07 base we reduced food waste by 40%, with none sent to landfill and 89% processed to generate energy using anaerobic digestion.

We re-used or recycled 147 million clothes hangers, with the savings used to fund UNICEF activities to alleviate poverty for children and their families in Bangladesh (page 28). Launched in July 2011, this scheme will see M&S donate at least £650,000 a year to UNICEF over three years.

Natural resources

This year we achieved our commitment to sustainably source 100% of our wild fish. We now have 257 M&S food products made using sustainable palm oil with GreenPalm oil and GreenPalm Kernel Oil certificates purchased for all other productions that contain palm oil.

We completed three major water stewardship projects with suppliers. Our M&S Model Forest programme – which goes beyond FSC certification to include best practice in manufacture and transport – was extended to supply our cardboard food packaging.

Fair partner

We extended our ethical assessments to cover our top ten property suppliers, as well as our carrier bag, uniform and mannequin suppliers. Working with the international Global Social Compliance Programme, we reduced the administrative burden on our suppliers, by identifying credible codes and monitoring schemes they can apply to their businesses.

PLAN A HIGHLIGHTS

Total commitments
180

Commitments achieved
138

How we do Business report
For more detailed information about our progress please visit marksandspencer.com/hwdbreport2012 to download a copy of our How we do Business Report 2012.

Looking ahead

Plan A is integral to our future plans; engaging our customers, making us a more efficient business and forcing us to innovate. As we continue to grow from a predominantly UK focused business to a multi-channel, international retailer we will need a more seamless approach to sustainability. We are pleased with our progress to date but we know we still have a long way to go on our journey to become the world's most sustainable major retailer.

Supplier training ↑
We've worked with Oxfam and Business in the Community to develop ways of measuring community health and prosperity in our supply chains. Since 2010, we have trained more than 121,000 people – mainly in our General Merchandise supply chains – on employee rights and responsibilities, health care, numeracy and literacy.

121,000

Customer

Fairtrade tea ↑
Our latest range of Fairtrade tea is packed at source by smallholders in Kenya, allowing them to earn a larger share of the profits. Jointly funded by the UK's Department for International Development (DFID), this project is the first of its kind in the world.

Carrier bag charging ↑
Profits from our 5p Food carrier bag charge raised £1.4m for charities, of which £400,000 went to Groundwork to support funding for gardens, parks and play areas. The other £1m supported our new Forever Fish campaign, which is helping fund beach clean activity.

£1.4m

Plan A products ←
We're making good progress towards our goal of giving all M&S products a Plan A quality. Currently, 31% of M&S Food and General Merchandise products have a Plan A quality, such as Fairtrade, animal welfare or healthier food – making it easier for our customers to make sustainable choices.

31%

Renewable energy ↑
We have now moved to renewable energy contracts for all electricity purchased directly. These include an increased amount of electricity from small-scale generators, including a new Archimedes screw water wheel installed on the Thames at the Mapledurham Estate.

Our people

Our people are at the very heart of our business; responsible for delivering our business plans and making M&S special for our customers. We employ over 81,000 people around the world and throughout the year we worked hard to equip them with the skills to drive our business forward. New initiatives have boosted engagement and helped employees better understand the crucial role they play in delivering our great products and service.

Actions against our plan

Embedded a new structure to support our growth ambitions

Developed an international HR tool kit

Tailored our training programmes to reflect business plans

Over the last 12 months we embedded a new organisational structure to support our business strategy. This included the integration of the International buying and marketing teams into our core business, as well as establishing a new regional structure for International. We began work to provide more consistent HR support to our 6,450 international employees; translating our HR tool kit into 18 languages and reviewing our international benefits to align with our UK offer.

This year, we made key senior management appointments to support our international and multi-channel ambitions. We continued to build a pipeline of future talent; recruiting over 180 graduates, including our first International graduate intake (opposite). For the first time we also offered five specialist E-commerce roles, to strengthen our Multi-channel team.

With a high volume of applications for both graduate and store positions, we manage the initial stages of recruitment online. This year we made the process more efficient, adding a new interactive questionnaire designed to better evaluate a candidate's attitude to customer service and improve the quality of stage two applicants.

Learning and development

In line with our business strategy, we broadened the content of our flagship training programme, Lead to Succeed, to include new International and Multi-channel modules. We also better aligned management programmes to ensure future leaders develop the right skills to support our growth plans.

The success of our new store format is dependent on our employees bringing it to life for customers. With this in mind, we rolled out a comprehensive training package – completing almost 90,000 hours of store training. Initially in our Food Halls, the training focused on enhancing product knowledge, as well as the specialist skills required for new departments such as delis.

Employee engagement

Despite a challenging trading environment, our annual 'Your Say' employee survey showed improving engagement scores, with positivity remaining broadly level at 75%. The results showed a strong correlation between high engagement and performance; with stores in the top quartile of engagement achieving 8% higher mystery shop scores than those in the bottom quartile.

We continued to drive engagement through our communications channels to ensure employees understand our business plans and the part they play. 2011/12 was the first full year of 'The BIG Idea', in which a director challenges employees to come up with improved ways of working, such as 'How can we help more customers shop both online and in store?' More than 2,000 responses were received for each quarterly question.

OUR PEOPLE HIGHLIGHTS

Total employees
81,000

Employees with over five years' service
50%

Employees with over ten years' service
28%

Looking ahead

With the Government's pension auto-enrolment changes effective from October 2012 our new pension plan will be in place from summer 2012. This will ensure we can meet the legislative requirements efficiently whilst retaining a market-leading scheme. In tandem, we will continue to develop our HR function to support the future plans of the business.

MARKS & START

Plan A: 5,000th Marks & Start placement

Launched in 2004, our Marks & Start work experience programme has helped over 5,000 people into the workplace. Working with four charity partners, we support the homeless, disabled, lone parents and young unemployed by providing work experience. Over 40% of participants go on to full time employment and we plan to increase placements offered in 2012/13.

Engage

M&S People System
Our new online system has introduced more efficient processes to our stores and offices. Employees can now remotely book time off and around 90% have opted to receive online payslips. Featuring a salary exchange scheme, it allows employees to exchange their gross salary for benefits of the same value such as childcare vouchers and a cycle to work offer.

Worldwide talent
In 2011 we launched an international graduate programme, recruiting eight graduates from India, China, Hong Kong, Greece and Poland. In addition to their local region, each graduate spent a month in the UK working in our stores and offices.

Business Involvement Groups
Our Business Involvement Groups represent all our employees and comprise 3,600 elected representatives from across M&S. This year they consulted on key projects including the roll out of our store programme.

BIG Business Involvement Groups

3,600

Five Peaks Challenge
In June, 33 climbers from our Retail team scaled the five tallest peaks in the British Isles in 48 hours. They raised more than £1m for Breakthrough Breast Cancer, the Marie Keating Foundation and Action Cancer. Their efforts were supported by a full weekend of activities in M&S stores and offices across the UK.

£65m

Sharesave
October 2011 marked the 30th anniversary of our award winning Sharesave scheme. Participation increased for the second year running, up 33% since 2009. In January the 11,000 participants of Sharesave 2008 shared gains of over £65 million.

Financial review

Despite a challenging trading environment, M&S has performed well in 2011/12. Sales were 2.0% ahead of last year and underlying profit before tax was £705.9m (last year £714.3m). Underlying earnings per share were up to 34.9p.

Whilst we continued to drive the delivery of our long term plans, we took decisive action to manage the business through the short term. We have been responsive to the increasingly promotional marketplace and invested in giving our customers even better value. Alongside this, we focused on managing our costs tightly to mitigate the impact on our profitability. This prudent cost management supports our investment in our future plans – helping us build a stronger platform from which to grow.

In November 2010 we shared our plans to become an international, multi-channel retailer and set out a target to grow our revenues by £1.5bn to £2.5bn over the next three years. As a result of the deterioration in the economic environment since we set out our plan, we now expect to achieve a £1.1bn to £1.7bn increase in revenues.

The execution of our plan moved apace this year and we are making good progress; enhancing our UK position and strengthening our international and multi-channel capabilities. We are managing the roll-out of our new store format appropriately and are pleased to have identified £100m of savings, reducing the total cost from £600m to £500m over the three years of the plan. This will be delivered with no reduction to the scope and we remain on target to complete the activity by mid 2013.

As with operating costs, we manage all our expenditure carefully, ensuring we are being as efficient as possible and spending every penny wisely. In light of increased growth in e-commerce we have reviewed our space requirements and have taken the decision to reduce our capital investments in UK space by £200m. We will continue to develop our space especially through our successful Simply Food format.

This time last year, I was clear that running an efficient business is not simply about cost cutting; it's about continual improvement, encouraging the business to find new and better ways of working. This approach is supported by our ongoing programme to restructure our supply chain, implement new information systems and improve our operational execution. As we accelerate this activity we continue to see bigger and better benefits.

Funding

We advised last year that the additional investment required for the execution of our plans would be funded by our existing cash flows, supporting our commitment to maintaining an investment grade credit rating and a progressive dividend policy.

Our position is underpinned by a strong balance sheet and net debt decreased this year to £1.86bn. Our working capital was well managed with a £161.9m inflow.

During the year we renewed our revolving credit facility, which was due to expire in March 2013, at a £1.3bn level, on a new five-year term with an option to extend for a further two years.

We also took advantage of market conditions to issue a new £300m bond in December, having repaid another that was due for maturity.

"We will manage our business prudently; navigating the short-term challenges to ensure long term sustainable growth."

Alan Stewart
Chief Finance Officer

Looking ahead
We remain cautious about the outlook and believe there is another challenging year ahead. Against this backdrop, we will continue to operate an efficient business; managing our costs tightly and building a platform for long-term sustainable growth.

Plan A: Innovation Fund
This fund provides additional support to innovate sustainability projects that help improve how we do business. This year, the fund provided £9m to support large-scale projects and a further £1m for smaller initiatives such as low carbon food products and hydrogen fuel cell powered fork lift truck trials.

Summary of results

	52 weeks ended 31 March 2012 £m	52 weeks ended 2 April 2011 £m	% variance
Group revenue	**9,934.3**	9,740.3	+2.0
UK	**8,868.2**	8,733.0	+1.5
International	**1,066.1**	1,007.3	+5.8
Underlying operating profit	**810.0**	824.9	-1.8
UK	**676.6**	677.9	-0.2
International	**133.4**	147.0	-9.3
Underlying profit before tax	**705.9**	714.3	-1.2
Non-underlying items	**(47.9)**	66.3	-
Profit before tax	**658.0**	780.6	-15.7
Underlying earnings per share	**34.9p**	34.8p	+0.3
Basic earnings per share	**32.5p**	38.8p	-16.2
Dividend per share (declared)	**17.0p**	17.0p	level

Revenues

Group revenues were up 2.0% driven by strong performances in our Food and International businesses. Revenue growth by area, as reported by period was:

Total revenue %	Q1	Q2	Q3	Q4	FY
UK					
Clothing	0.9	-1.1	1.1	-0.3	0.2
Home	-5.4	-9.2	-13.3	-7.5	-10.0
General Merchandise	0.3	-1.9	-0.8	-1.2	-0.9
Food	5.0	2.8	4.5	3.1	3.9
Total UK	**2.7**	**0.5**	**1.8**	**1.2**	**1.5**
International	**7.8**	**10.1**	**8.1**	**-2.0**	**5.8**
Total Group	**3.2**	**1.5**	**2.4**	**0.8**	**2.0**

Like-for-like revenue %	Q1	Q2	Q3	Q4	FY
UK					
General Merchandise	0.0	-2.5	-1.8	-2.8	-1.8
Food	3.3	1.0	3.0	1.0	2.1
Total UK	**1.7**	**-0.7**	**0.5**	**-0.7**	**0.3**

UK revenues were up 1.5% in total with a like-for-like increase of 0.3%. We added 2.1% of space, 1.8% in General Merchandise and 2.6% in Food, on a weighted average basis.

International revenues were up 5.8%. Our owned businesses in India and China saw strong growth, driven by good like-for-like growth and the opening of new space. Trading conditions continue to be difficult in Greece and the Republic of Ireland. Our franchise business continued to perform well, with the Far East and Middle East regions growing strongly. We returned to France in November, opening our first store in Paris at 100 Avenue des Champs Élysées, with more stores planned.

Operating profit

Underlying operating profit was £810.0m, down 1.8%.

In the UK, underlying operating profit was down 0.2% at £676.6m. Gross margin was down 30 basis points at 40.8%. General Merchandise gross margin was down 80 basis points at 51.4% as a result of raw material and wage inflation, adverse currency pressure and the increase in promotional activity. Food gross margin was up 50 basis points at 31.4% with better management of promotions and waste, as well as early benefits from new systems implementation, helping to offset the commodity price increases.

Underlying UK operating costs were up 1.5% to £2,995.0m. A breakdown of the costs is shown below:

	52 weeks ended 31 March 2012 £m	52 weeks ended 2 April 2011 £m	% variance
Retail staffing	**889.2**	877.6	+1.3
Retail occupancy	**1,030.9**	1,011.8	+1.9
Distribution	**398.1**	393.5	+1.2
Marketing and related	**161.8**	142.9	+13.2
Support	**515.0**	525.5	-2.0
Total	**2,995.0**	2,951.3	+1.5

Retail staffing costs were well managed despite increases in selling space and the annual pay review.

Increased occupancy costs reflect growth in selling space and the impact of rent and rates reviews, offset by service charge negotiations and reduced energy consumption.

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

The growth in marketing costs was weighted towards the first half of the year as we increased the number of advertising campaigns to support the launch of the 'Only at Your M&S' branding as well as the relaunch of our clothing sub-brands.

The reduction in support costs reflects a higher depreciation charge associated with our IT investment, more than offset by efficiency savings and improved procurement.

The underlying UK operating profit includes a contribution from the Group's continuing economic interest in M&S Money of £50.7m. This contribution is up 44% (last year £35.2m), due to a significant reduction in delinquency rates within M&S Money as customers have been paying down outstanding balances.

Financial review continued

Underlying international operating profit was down 9.3% at £133.4m (last year £147.0m). Franchise operating profits were up 19.9% to £110.7m due to continuing strong sales performance. Owned store operating profits were £22.7m, down 58.5%, with trading in our European businesses impacted by macro-economic pressures.

Non-underlying profit items

	52 weeks ended 31 March 2012 £m	2 April 2011 £m
Profit on property disposals	–	2.9
One-off pension credit	–	10.7
Impairment of assets	**(44.9)**	(6.3)
Fair value movement on financial instrument	**15.6**	54.3
Fair value movement of embedded derivative	**(0.2)**	20.3
Strategic programme costs	**(18.4)**	(15.6)
Total non-underlying profit items	**(47.9)**	66.3

The impairment of assets includes the full write-off of the Greece Group goodwill (£34.4m), and the impairment of some store assets in the Greece Group (£10.5m). Last year the amount represented the impairment of an investment property.

The liability for the put option over the non-controlling interest in the Czech Group is carried at fair value and has been revalued in line with the latest business plan. The resulting non-cash credit of £15.6m has been recognised within finance costs.

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

As a result of the strategic programmes we incurred £18.4m of costs in the year which are not part of the normal operating costs of the business. These include non-cash costs of accelerated depreciation and equipment write-offs as well as costs associated with the relocation of the per una business to London. The cumulative strategic programme costs incurred since the strategy was announced are now £34m.

Net finance costs

	52 weeks ended 31 March 2012 £m	2 April 2011 £m
Interest payable	**(135.6)**	(140.6)
Interest income	**7.1**	4.7
Net interest payable	**(128.5)**	(135.9)
Pension finance income (net)	**25.6**	37.6
Fees payable	–	(8.5)
Unwinding of discounts on financial instruments	**(1.2)**	(3.8)
Underlying net finance costs	**(104.1)**	(110.6)
Fair value movement on financial instruments	**15.6**	54.3
Net finance costs	**(88.5)**	(56.3)

Net interest payable was down 5.4% at £128.5m reflecting a reduction in average net debt over the year. The Group's average cost of funding was 6.5% (last year 6.4%). Underlying net finance costs were down £6.5m to £104.1m reflecting the lower interest payable and fees paid in the prior year, partially offset by a lower pension finance income of £25.6m (last year £37.6m). The non-cash fair value gain on financial instruments of £15.6m represents a change in the valuation of the put option over the non-controlling interest in our Czech business.

Taxation

The full year effective tax rate on underlying profit before tax was 24.5% (last year 25.1%), reflecting the benefit of announced changes to the corporation tax rate. Full year effective tax rate was 25.6% (last year 23.3%).

Underlying earnings per share

Underlying earnings per share increased by 0.3% to 34.9p per share. The weighted average number of shares in issue during the period was 1,579.3m (last year 1,577.1m).

Dividend

The Board is recommending a final dividend of 10.8p per share. This will result in a total dividend of 17.0p, in line with last year. This reflects the Board's commitment to a progressive dividend policy broadly twice covered by earnings.

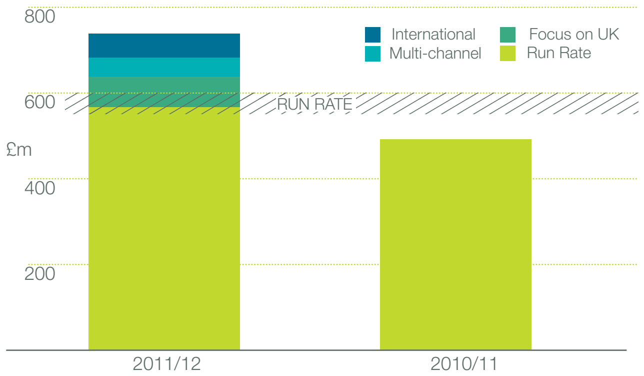
Capital expenditure

	52 weeks ended 31 March 2012 £m	2 April 2011 £m
Focus on the UK	**71.6**	–
Multi-channel	**42.8**	–
New stores	**170.4**	151.2
Store modernisation programme	**73.6**	38.1
International	**61.9**	29.6
Supply chain and technology	**212.7**	191.4
Maintenance	**104.5**	81.2
Total capital expenditure	**737.5**	491.5

	Year ended 31 March 2012 £m	2 April 2011 £m
Store modernisation programme	**73.6**	38.1
New stores	**170.4**	151.2
International	**5.2**	29.6
Supply chain and technology	**212.7**	191.4
Maintenance	**104.5**	81.2
Run capital	**566.4**	491.5
Strategic capital	**171.1**	0.0
Total capital expenditure	**737.5**	491.5

As previously announced we commenced our investment in UK stores in order to create a more inspiring environment and trial a new approach to segmentation and in-store navigation.

We have also commenced our investment in improved multi-channel capabilities with the launch of our French website in October 2011 and Irish site in April 2012 and continue progress on the plan to build our own multi-channel platform.



We added 2.1% of selling space in the UK (on a weighted average basis), trading from 16.0m sq ft at the end of March 2012. We opened 28 new stores during the year, including a 136,000 sq ft flagship in the new Westfield shopping centre in Stratford, as well as 25 Simply Food stores.

In our International business, space increased by c.12%, predominantly in our key strategic territories of India, China and the Middle East as well as Russia.

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

Cash flow and net debt

	52 weeks ended	
	31 March 2012 £m	2 April 2011 £m
Underlying EBITDA	**1,280.1**	1,292.4
Working capital	**161.9**	184.0
Pension funding	**(89.9)**	(91.2)
Capex and disposals	**(720.7)**	(450.3)
Interest and taxation	**(277.3)**	(327.6)
Dividends and share issues/purchases	**(236.7)**	(251.1)
Net cash inflow	**117.4**	356.2
Opening net debt	**(1,900.9)**	(2,068.4)
Exchange and other non-cash movements	**(73.6)**	(188.7)
Closing net debt	**(1,857.1)**	(1,900.9)

The Group reported a net cash inflow of £117.4m (last year £356.2m). This inflow reflects a decline in underlying EBITDA and increased capital expenditure, more than offset by strong working capital management and lower interest and taxation.

Capital expenditure, net of disposals, was £720.7m (last year £450.3m) reflecting further investment in our supply chain and IT, new space growth and the implementation of the strategy.

Net debt was £1,857.1m, a £43.8m reduction on last year.

Pensions

At 31 March 2012 the IAS 19 net retirement benefit surplus was £78.0m (last year £168.5m). The market value of scheme assets increased by £788.3m, due to improved asset performance and company contributions. The present value of the scheme liabilities has increased due to a reduction in the discount rate, offset by a reduction in the rate of inflation.

On 21 May 2012 the Group changed the terms of the Scottish Limited Partnership (the Partnership) to waive the Group's limited discretionary right over the annual distributions from the Partnership to the Pension Trustee. These discretionary rights were agreed with our Trustee in 2009, the time of the last triennial valuation.

This change will not have any impact on the cash flows of the Group, but will, prospectively from 21 May 2012, result in a change in the accounting treatment. The change will reflect (i) the recognition of a financial liability, representing the present value of the remaining ten years of distributions of £71.9m per annum, and (ii) an increase in the Group's annual interest charge of c.£17m to reflect the unwinding of the discount on the liability. In financial year 2012/13 the change will result in an increase in the Group's reported net debt of £537m and a decrease in total net assets of £551m. The Group's obligations to the Pension Trustee remain unchanged and this will not have any material impact on the Group's credit rating.

In March 2009, conscious of the Group's obligations to the Pension Trustee and the Partnership (which is a partnership between the Group and the Pension Trustee which holds a number of properties from which the Group trades and on which the Group pays rent to the Partnership), we amended the terms of the Partnership to reflect a discretionary right agreed between the Group and the Trustee. This right is such that in the circumstances when no ordinary dividend or other distribution is made to ordinary shareholders, the annual distribution of £71.9m from the Partnership to the Pension Trustee would not be obliged to be made. The impact of this change was to reclassify £572m from debt to equity in March 2009, and to reduce the Group's interest charge by £33m in the financial year 2009/10. The Audit Committee and the Board have consistently received accounting and legal advice supporting this accounting treatment. There was no impact on the Group's ultimate obligation to the Pension Trustee and no impact on cash flows.

Following the publication of the 2009 Annual Report and Accounts, in February 2010 the Financial Reporting Review Panel (FRRP) wrote to the Company in relation to the change in accounting treatment of the obligation to the Pension Trustee. In the dialogue that followed, and has continued until the present time, the FRRP expressed a concern that in the circumstances of the Group's pension arrangement this discretion was not sufficient to support classification of the Partnership interest as a component of equity.

In the interest of bringing discussions with the FRRP to a close and given that the Group has a stated dividend policy and the Board continues to expect that future dividend payments and resulting Partnership distributions will be made, the Group has decided that it will reflect the obligation as a liability, and in order to achieve this will indefinitely waive its discretionary right. As before, there is no change in the Group's ultimate obligation to the Pension Trustee. The FRRP has confirmed that this change, with the consequent accounting treatment, effective from 21 May 2012, will bring its discussions with the Group to a close.

Governance

Chairman's overview

Robert Swannell

"The Board is the guardian of the M&S brand, its reputation and stakeholder relationships. If we continue to do the right thing, the right way, with integrity and with the right checks and balances, these will be protected for the future."

Last year was the start of a new chapter in the development of the Board and our governance. We have made progress against the plan we set ourselves, driving leadership, collaboration and a culture of continuous improvement in standards and performance across the business.

We have made a number of changes to the Board and its Committees during the year, welcoming three new members to the team.

I believe that we have a truly engaged and committed Board. I am pleased with the robust and challenging debate held across a wide range of issues and the support shown to the Executive team as it drives our strategy to become an international multi-channel retailer.

It is important that we continue to drive our effectiveness as a team and ensure we are consistent in our commercial decisions and in our values and principles. Integrity in our decision-making is key to maintaining the trust of our stakeholders.

What we do today, the level of debate and behaviour we exhibit as a Board is critical to our success. We recognise that we may not always get things right; where that is the case we will learn from our mistakes. We should be as open as we can be to new ways of doing things better as well as drawing from our past decisions, experiences, standards and processes and use them to inform and support our future.

As an extraordinary testament to our rich history and experience, we recently moved the M&S Company Archive to a purpose built new home in the heart of the University of Leeds. This allows us to make our extensive collection, gathered over 128 years, accessible for the first time to a much wider community. To find out more visit marksintime.marksandspencer.com

The Board has taken an active interest in the Archive's development, recognising that our history and decisions have guided behaviours, contributed to the M&S culture and enabled the development of the M&S brand.

We, as a Board, are the current guardians of this iconic and valuable brand, its reputation and stakeholder relationships.

If we continue to do the right thing, the right way, with integrity and with the right checks and balances, these will be protected for the future.

Our governance is focused not only on the boardroom but also right across the business. We believe that good governance ultimately produces a better business and supports long-term performance. It is not just what we do, but how we do it.

As a Board we regularly discuss and review:

- our strategy, brand and reputation and how we can best achieve our goal to become an international multi-channel retailer;
- our Code of Ethics and Behaviours; our guide to our values, behaviours and ways of working;
- our colleagues, ensuring they feel valued, motivated and rewarded and how we can ensure their future development and succession;
- our customers, suppliers and local communities, ensuring we treat them fairly and with respect;
- our shareholders, how we can communicate openly and be transparent with them in the way we manage the business; and
- Plan A, our ambitious plan to become the world's most sustainable retailer.

UK Corporate Governance Code

The 2010 UK Corporate Governance Code is the standard against which we were required to measure ourselves in 2011/12. We are pleased to confirm that we complied with the UK Corporate Governance Code 2010 for the period under review with the exception that, for a short period of six weeks, the number of independent non-executive directors on the Board, excluding the Chairman, dropped below half as required by the Code. This was due to a timing difference between the retirement of Louise Patten in July and Vindi Banga joining the Board in September. Given that the Board was not scheduled to – and did not – meet during this short period, we feel our governance was not impacted.

The required regulatory and governance assurances are provided throughout this report. However, again we have sought to avoid a box-ticking approach. Using the key themes of the Code, we focus on how governance supports and protects the M&S business in a practical way. You will find our approach to Leadership on pages 42 and 43, Effectiveness on 44, Accountability on 45 to 48, Engagement and Relations with Shareholders on 49 and 50, the Governance of our Pension Scheme on page 50 and Remuneration on pages 54 to 67.

Our Governance Framework is constantly reviewed and sets out the roles, accountabilities and expectations for our directors and our structures. It also details a schedule of matters reserved for the Board's decision, detailing key aspects of the Company's affairs that the Board does not delegate (including, amongst other things, approval of acquisitions and disposals, business plans and material expenditure). The framework can be viewed, along with the full account of how we have complied with the UK Corporate Governance Code at marksandspencer.com/thecompany.

Overview
Strategic review
Financial review
Governance
Financial statements and other information

Our Committees and Committee chairmen

Diversity

This year diversity has been a key theme for governance generally. We made further progress in shaping our Board for the future, ensuring that diversity, in its broadest definition, is at its heart. We discussed diversity and what this means for our business, our customers and stakeholders. Our policy on page 51 summarises our views and sets out our ambitions.

From a practical perspective, our focus on diversity meant we looked hard at our mix of skills and experience. Our new appointments have sought to complement these as well as ensuring a better balance of gender and international background as we become a truly international multi-channel retailer.

Much focus of the diversity debate has concentrated on female director appointments. Our female directors today represent around 30% of the Board. Below Board level, women account for 35% of senior management. A number of appointments across the broader senior management team have also enabled us to benefit from greater international experience, which is important as we grow our international presence. Our Board diversity mix is shown overleaf along with more detailed biographies and a snapshot of the Board's experience.

Appointments and succession

In July 2011, we announced the appointment of Vindi Banga as a non-executive director. Vindi joined the Board in September and brings a wealth of global business experience along with extensive consumer and brand knowledge. In July, Laura Wade-Gery joined the Board as Executive Director Multi-channel E-commerce, following the announcement of her appointment in February 2011. In October 2011, we announced the appointment of Miranda Curtis as a non-executive director. Miranda joined the Board in February 2012 and brings a valuable perspective of international consumer business and technology. Laura, Vindi and Miranda each had extensive induction programmes on joining the Board. Vindi and Miranda are also now both members of the Nomination and Remuneration Committees.

In February 2012, our Deputy Chairman and Senior Independent Director, Sir David Michels stepped down from the Board following the end of his second three-year term. The Board appointed Jan du Plessis as Senior Independent Director on 1 March 2012 to succeed David. Jan has served on the Board since November 2008.

In addition to ensuring appropriate succession of our non-executive directors, the Nomination Committee has remained focused on the succession and development of the Executive team, as well as ensuring it has greater insight into our future talent pool. The Committee's activities are outlined on page 51.

Supporting this development of our leadership within the business, the Remuneration Committee has overseen the implementation of the new senior executive framework and ensured robust and fair debate around the setting and disclosure of objectives and targets. These are highlighted in greater detail on page 57. The Committee has also participated in the wider UK remuneration debate, taking an active role in a number of formal consultations and engaging with major shareholders and investor representative bodies.

Monitoring risk

Monitoring the level of risk, and ensuring appropriate governance to support this remains a key objective, involving the support of the Audit Committee. We have an ambitious strategy and it is important that the scope of the audit plan captures the full range of our business initiatives, whilst ensuring assurance on core practices and activities. The outputs of the Committee are described in greater detail on page 52.

Our Audit Committee has helped support the Board's activities. It is important that we continue to drive the level of challenge and debate around risk as well as improve our understanding of risk appetite and tolerance as our business evolves.

Overall, I am pleased with the progress we have made this year across the governance agenda, some of which is highlighted on the following pages. However, we will continue to be open in any way we can to improve our governance and board performance. Where things go wrong we will say so and learn.

Robert Swannell
Chairman

To see our full governance framework go to marksandspencer.com/thecompany and follow the link. Those with a QR Reader app can use the link to the right.

Board of directors

Robert Swannell
Chairman

Appointed Chairman in January 2011. Robert joined Marks & Spencer as a non-executive director in October 2010. He brings a wealth of knowledge of the City, acquired over 33 years in investment banking at Schroders and Citigroup, and extensive government and regulatory experience from previous roles with BIS and the FSA. Robert has significant board-level experience in the retail, private equity and real estate industries. His leadership in the area of governance has enhanced board debate and helped drive a culture of openness and development. Robert stepped down from the Board of HMV Group plc on 23 June 2011, recognising the increased commitment of this role. He was previously Senior Independent Director of The British Land Company plc and 3i Group plc.

Chairman of the Nomination Committee
Independent

Marc Bolland
Chief Executive

Appointed in May 2010. Marc joined Marks & Spencer from Wm Morrison Supermarkets plc where, as Chief Executive, he led the successful development and implementation of its long-term strategy. Prior to this, Marc was Chief Operating Officer at Heineken NV, where he was globally responsible for the Heineken business. Since joining M&S, Marc has worked with the Board in developing our strategy to become an international multi-channel retailer. Marc is a non-executive director of Manpower Inc.

Member of the Nomination Committee

Alan Stewart
Chief Finance Officer

Appointed in October 2010. Alan has extensive financial experience in industries as varied as retail, travel and banking. He joined Marks & Spencer from aircraft leasing company AWAS, where he was Chief Financial Officer. Alan worked for HSBC Investment Bank before joining Thomas Cook in 1996, where he held a number of roles including Chief Executive of Thomas Cook UK. He became Group Finance Director of WH Smith plc in 2005, playing a central role in the improvement of the Group's financial performance. Alan was previously a non-executive director of Games Workshop Group plc.

Kate Bostock
Executive Director,
General Merchandise

Joined Marks & Spencer in October 2004 and was appointed to the Board in March 2008. Kate has a wealth of brand and retail experience after holding numerous senior positions across all areas of clothing and footwear during her career. Kate joined M&S from Asda where, as Product Director of the George brand, she was responsible for the launch of the standalone George concept and brand globally. Prior to Asda, Kate was Product Director for Childrenswear at Next. She is an honorary Doctor of Arts at de Montfort University and Business Administration at Manchester Metropolitan University. Kate has played a major role in our renewed brand focus and store improvement programme.

John Dixon
Executive Director,
Food

Joined Marks & Spencer in 1986 and was appointed to the Board in September 2009. John brings a unique experience of M&S to the Board as a result of his long history with the Company. He joined as a store management trainee and has worked in a variety of senior roles across the business, including internationally-based retail roles, Executive Assistant to the Chief Executive and Director of Multi-channel E-commerce and Home. John was appointed Director of Food in July 2008 and has been instrumental in driving and improving the Food business.

Steven Sharp
Executive Director,
Marketing

Joined Marks & Spencer in May 2004 and was appointed to the Board in November 2005. Steven brings extensive retail marketing experience and is the architect of our marketing strategy. He started his career as a Marketing Manager with Bejam in 1978, progressing to the Argyll Group and becoming Marketing Director of Asda in 1987. He has also been Marketing Director of the Burton Group, Booker plc and Arcadia Group plc. He is a non-executive director of Adnams plc, a Fellow of the Chartered Institute of Marketing, The Marketing Society, The Royal Society of Arts and a visiting professor of Glasgow Caledonian University.

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

Appointed on 4 July 2011. Laura brings considerable retail and consumer experience to the Marks & Spencer Board, including significant e-commerce knowledge from her previous role as Chief Executive Officer of Tesco.com and Tesco Direct. Laura is leading significant change to our e-commerce capabilities. She was appointed a director of Royal Opera House Covent Garden Limited on 2 March 2012 and stepped down as a non-executive director of Trinity Mirror plc on 10 May 2012. Prior to joining Tesco, Laura held various roles at Gemini Consulting and Kleinwort Benson.

Jeremy Darroch
Non-executive
director

Appointed in February 2006. Jeremy provides considerable insight into the consumer retail environment acquired through a successful career at some of the UK's most high profile organisations. He has been Chief Executive of British Sky Broadcasting Group plc since 2007, having previously been the Chief Financial Officer from 2004. Prior to that Jeremy was Group Finance Director and Retail Finance Director at Dixons Retail plc, formerly Dixons Group plc.

Chairman of the Audit Committee
Member of the Nomination Committee
Independent

Steven Holliday
Non-executive
director

Appointed in July 2004. Steve has a wealth of experience on the Board of Marks & Spencer, bringing extensive knowledge of corporate business. He has also held senior executive and boardroom level roles within the challenging utility and oil and gas industries. Steve is Group Chief Executive Officer of National Grid plc, having previously been Group Director, UK and Europe and responsible for the UK Electricity and Gas businesses. Prior to joining National Grid, Steve was an Executive Director of British Borneo Oil and Gas. He has also held numerous senior positions with the Exxon Group. Steve is Chairman of Crisis.

Chairman of the Remuneration Committee
Member of the Audit and Nomination Committees
Independent

Martha Lane Fox
Non-executive director

Appointed in June 2007. Martha's considerable expertise in e-commerce and experience in the successful operation of online and consumer-facing businesses is helping to develop and challenge our multi-channel strategy. Martha is the UK's Digital Champion and Chair of Go ON UK. She chairs the Government's Digital Advisory Board and is a non-executive director of MyDeco.com. She was a non-executive director of Channel 4 Television until January 2012. Martha is well-known as one of the co-founders of lastminute.com, which she took public in 2000. She is the founder and Chair of LuckyVoice.com and of her own grant-giving foundation, Antigone.org.

Member of the Audit and Nomination Committees
Independent

Jan du Plessis
Senior Independent Director

Appointed as a non-executive director in November 2008 and Senior Independent Director on 1 March 2012. Jan has considerable business and brand experience, having sat on the boards of a number of leading companies across a variety of industries. Jan is Chairman of Rio Tinto plc. He was formerly Chairman of British American Tobacco plc and RHM plc and a non-executive director of Lloyds Banking Group. He was also Group Finance Director of the Swiss luxury goods group Richemont until 2004.

Member of the Audit, Nomination and Remuneration Committees
Independent

Miranda Curtis
Non-executive director

Appointed on 1 February 2012. Miranda has considerable experience within the international consumer and technology sectors and extensive experience of the global broadband cable industry. In her 20-year career with Liberty, Miranda led the company's investments in digital distribution and content operations across Continental Europe and Asia-Pacific, most notably in Japan. Miranda is Chairman of Waterstones, a non-executive director of Liberty Global Inc and was a non-executive director of National Express Group plc until 11 May 2012.

Member of the Nomination and Remuneration Committees
Independent

Vindi Banga
Non-executive director

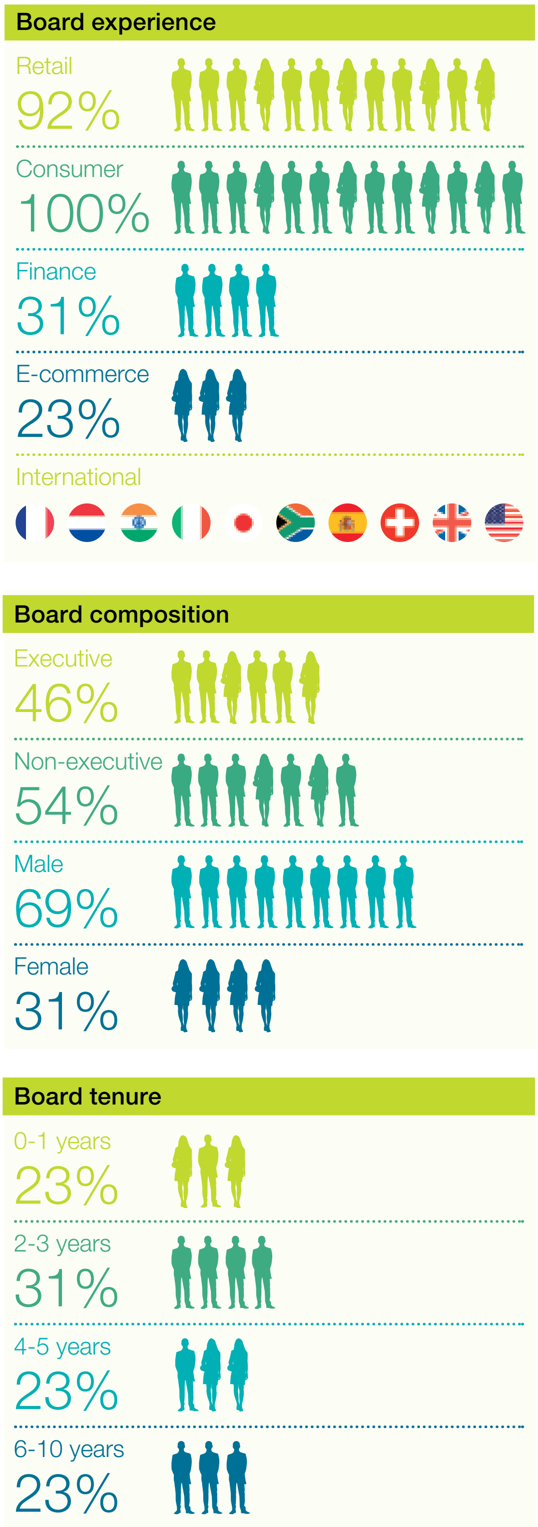
Appointed on 1 September 2011. Vindi has extensive consumer brand knowledge and global business experience, acquired over 30 years in a number of senior roles within the consumer goods industry at Unilever plc, including President of the Global Foods, Home and Personal Care businesses, and as a member of the Unilever Executive Board. Vindi is a partner at private equity investment firm Clayton Dubilier & Rice and a non-executive director of Thomson Reuters and Maruti Suzuki India Ltd.

Member of the Nomination and Remuneration Committees
Independent

Amanda Mellor
Group Secretary and Head of Corporate Governance

Appointed in July 2009. Amanda was appointed a non-executive director of Kier Group on 1 December 2011.

Board diversity



Leadership

Our Board

Name of Director	Board Meetings A	B
Chairman		
Robert Swannell	10	10
Deputy Chairman		
Sir David Michels[1] (retired 29 February 2012)	9	8
Chief Executive		
Marc Bolland	10	10
Executive directors		
Kate Bostock	10	10
John Dixon	10	10
Steven Sharp[2]	10	9
Alan Stewart	10	10
Laura Wade-Gery (appointed 4 July 2011)	7	7
Non-executive directors		
Vindi Banga (appointed 1 September 2011)	7	7
Miranda Curtis (appointed 1 February 2012)	2	2
Jeremy Darroch	10	10
Martha Lane Fox	10	10
Steven Holliday	10	10
Louise Patten (retired 13 July 2011)	3	3
Jan du Plessis[3]	10	9

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

1) Sir David Michels was unable to attend the Board meeting on 7 December 2011 due to overseas business commitments.
2) Steven Sharp was unable to attend the Board meeting on 6 January 2012 due to personal commitments.
3) Jan du Plessis was unable to attend the Board meeting on 4 May 2011 due to overseas business commitments with Rio Tinto.

The Board agenda focuses on our themes of driving our strategy, developing strong leadership and succession, monitoring execution, protecting our trusted brand and our strong relationships with customers, employees and other stakeholders.

While we recognise the importance of compliance, we try to avoid spending time on box-ticking and gold-plating legislation, choosing instead to focus on the long-term plans for our business and its execution.

Following our external Board evaluation last year, we further reviewed all information sent to Board members. We also moved to electronic distribution of our Board papers by iPad – a contribution, albeit small, towards supporting our Plan A objective to reduce the use of printed paper across our business, but one which clearly demonstrates the Board's willingness to embrace new technology and more efficient methods of communication.

Our Board agendas today allow more time for debate and long-term strategic discussion, with two Board away-days held during the year. Our forward planner gives Board members visibility of what is on future agendas for their consideration. We also schedule time during every meeting for ad hoc feedback as well as giving the non-executive directors an opportunity for private discussion.

Following last year's action plan we have sought to ensure that we reflect on decisions taken by the Board and learn from those decisions or situations where things go wrong. A good example of this was a discussion held in December 2011, following a substantial fine from the Health and Safety Executive after we were found to have breached the Health and Safety at Work etc Act. The Board received a detailed presentation from our health and safety, property and legal teams, and discussed the lessons learnt from this case and the actions put in place by the business to avoid such incidents in future.

Driving strategy

The Board approved a number of significant strategic developments and investments during the year. These included the new platform for our online business, European websites in France and Ireland, a number of new stores, investment and review of our new store format programme as well as reviewing the progress of associated customer-facing initiatives.

We have found that early stage engagement on strategic initiatives is essential to ensuring robust debate. Given our ambition to grow our business and become an international multi-channel retailer by 2015 we have continued to hold two strategy-focused meetings in the year. Our October meeting was held in our newly opened store in Stratford, East London, giving the Board the opportunity to walk the store and be in touch with the latest customer and store developments prior to the roll-out across the estate (discussed earlier in this report). In February 2012, the Board came together again to review the three-year plan and progress with the strategic initiatives, particularly around the development of our multi-channel and international businesses.

Monitoring risk

A greater level of strategic discussion has also enabled the Board to develop its debate on risk, risk appetite and tolerance, testing how best we can maximise the opportunities for us to grow the business.

Protecting the business from operational or reputational damage is an essential part of the Board's role. In line with our action plan, and supported by the Audit Committee, we have assessed the effectiveness of our reporting controls and ensured our Group Risk Profile reflects the business's strategic objectives. We have carried out a full review of internal controls, updated our Code of Ethics and Behaviours, introduced an Anti-Bribery Policy and supported this with a communications and training programme to ensure awareness.

We have also reviewed previously approved investment decisions, reviewed the progress of the Plan A External Advisory Board and reviewed our health and safety and business continuity planning.

Nurturing talent

Developing leadership, future talent and securing succession plans for the business have continued to be key themes for the Board, building on discussion from the previous year. As we did last year, we also spent time on the induction of three new Board members and the programmes designed were all thoroughly comprehensive (an overview of these inductions can be found in the Corporate Governance section of our Corporate website marksandspencer.com/thecompany.

Building on the development of our leadership, this year our non-executive directors held a number of small informal lunch meetings with senior managers. These meetings have been well received, giving our non-executive directors the opportunity get to know our top talent and give our managers a forum for free-flowing informal debate with Board members.

Training and development of our senior managers has continued to be a key focus and the majority of them have now been through our Lead to Succeed programme. This year the Board supported the introduction of two additional modules to this initiative to challenge our managers as to how they might lead an international, multi-cultural, multi-channel business. We believe that these initiatives position us well to develop a source of talented leaders for the future and feedback has been extremely positive.

We have also ensured our reward framework is fit for purpose, reflecting our resolve to recognise the skills and talents represented across our teams as well as setting stretching goals and objectives that feed into our wider ambitions for the business. Our Remuneration Committee continues to lead and ensure they challenge on this important piece of work; for more details see page 57.

Feedback is encouraged both within the boardroom and across our business. All employees have a chance to share their views and insights via a host of engagement initiatives including our annual 'Your Say' survey, Business Involvement Groups, director presentations, the Annual Business Conference for store and senior management and informal director roundtable discussions. Employee feedback from such events is discussed by the Board giving useful insight into employee morale and their reactions.

Board discussion – Driving continuous improvement in 2011/12

Leadership and employees

- Focused on succession within the business, reviewing and identifying the top talent, developing a pipeline of high-quality individuals for future succession.
- Developed our Board Diversity policy.
- Continued to focus on the composition, balance and effectiveness of the Board. The appointment of two new non-executive directors and a new Senior Independent Director brings new perspectives, experience and skills to the table, further strengthening the Board debate.
- Reviewed the key operational hires and identified gaps in experience needed to deliver the strategy.
- Continued to enhance employee engagement through, the annual 'Your Say' survey, our Business Involvement Groups, the BIG Idea, director presentations, the Annual Business Conference and informal director roundtable discussions.

Customers

- Received regular presentations from the M&S Customer Insight Unit, to better understand the key customer concerns, market and consumer trends and sentiment in the current tough economic environment.
- Approved the launch of the new store format and reviewed the progress of the customer facing initiatives. These newly refreshed store environments now showcase the distinct clothing brands and the newness and innovation of the food offering.
- Received customer feedback in store and at the AGM.

Strategy

- Approved the decision to build a new multi-channel platform to support our multi-channel ambitions, including agreeing the key suppliers for the project.
- Held two Board away-days to support and challenge all areas of the Group strategy and the three-year plan.
- Regularly reviewed the supply chain modernisation project and challenged the distribution model to ensure value and efficiency.
- Debated the new International strategy and reviewed the case for restructuring the Greek operation.
- Debated and approved the Group's dividend policy.
- Reviewed the Group's capital structure and funding requirements.
- Agreed the launch of the French and Irish websites, to support our international ambitions.

Marks & Spencer
Doing the right thing the right way
Governance

Relations with shareholders

- Annual independent investor audit undertaken by Makinson Cowell.
- Held our first governance event in June 2011, providing an opportunity for the Board and our top 20 investors and investor bodies to engage face-to-face on key areas of concern.
- Engaged with our retail shareholders at the AGM.
- Reached out to our 'lost' shareholders by engaging a full lost shareholder search programme, now embedded into the annual calendar.
- Actively engaged with institutional shareholders, investor and regulatory bodies throughout the year.

Trusted brand

- Launched the M&S Company Archive to the public. Ensuring our rich history and heritage is preserved and accessible by the Company, the academic community and the wider public.
- Established the Plan A External Advisory Board, to provide independent advice and guidance to shape our ambition of becoming the world's most sustainable retailer.
- Supported the strengthening of governance structures throughout our international operations to better protect our brand, following issues highlighted by our internal processes.

Checks and balances

- Assessed the effectiveness of the Group Risk Profile by identifying where the business's key risks lie, aligning them with the business's risk appetite and highlighting how to effectively target those risks.
- Undertook a 'Year 2 Booster' approach to the 2012 evaluation of the Board and its committees to continue our focus of becoming the best Board we can be.
- Reviewed the health and safety lessons learned, ensuring the safety of our employees and customers is protected.
- Scrutinised and debated key investment proposals: re-evaluated two significant property and logistics investment decisions to ensure best value for the business.
- Reviewed the Governance Framework and launched a comprehensive anti-bribery, training and awareness campaign.

Effectiveness

How do we make sure our Board is effective?

In 2010/11 we commissioned our first ever independently-facilitated Board review, conducted by Ffion Hague of Independent Board Evaluation. Our aim was to capture open and constructive feedback from Board members that would:

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

While it is considered best practice for boards to conduct an external review every three years, based on the positive feedback from the Board and the fact that we had a number of new joiners during the year, we decided to adopt a 'Year 2 Booster' approach for our 2012 review.

The aim of this approach was to:

- check progress against the issues identified in last year's report;
- check feedback from new members of the Board and bring them up to speed with the process the Board has undergone;
- identify any new issues that have arisen during the past year.

Once again, and in order to ensure consistency, Ffion Hague assisted with this review. The review was conducted according to the guidance in the UK Corporate Governance Code 2010.

What was the focus of the Board review?

Our approach involved a Board observation; one-to-one interviews with the Chairman and new joiners and structured telephone interviews with those directors who participated in last year's evaluation. Each participant was asked to evaluate the Board, its Committees, the Chairman and individual Board members. The process took place between January and March 2012.

Subjects covered included a general overview as to the 'state' of the Board, its operation and how this had changed over the year. Directors were asked for their views on our shareholder engagement and relationships and how these relationships might be improved.

Views were sought on the Board's input into strategy discussions, governance and compliance, risk management and succession planning.

Views were also sought on the Board culture and the relationships with senior management as well as how new members are selected and inducted.

What did we learn?

From the review, and subjects covered, it is clear that the Board has made progress on most of the points on last year's action plan, as evidenced by:

- the dedicated session on succession and talent and the introduction of non-executive lunches to improve engagement with senior management;
- the appointment of Vindi Banga and Miranda Curtis following the retirement of Sir David Michels and Louise Patten; the subsequent appointment of Jan du Plessis as Senior Independent Director; the review and changes to the Remuneration and Audit Committees;
- the opportunity for a more focused review of strategy with two meetings specifically dedicated to this, one in the Stratford store in October and the other more recently in February 2012;
- further progress on developing the Group Risk Profile and aligning the risks and actions to the strategy outlined in November, which was a key focus for the Audit Committee. However, there is opportunity for us to broaden the debate and explore our understanding of risk, tolerance and appetite in 2012/13; and
- we held our first governance event in June 2011 which was well attended by major shareholders and representative bodies. They clearly welcomed the opportunity to discuss succession and the Board, remuneration and Plan A. We agreed to make this an annual event and the next one is scheduled for June 2012. We have also been actively engaged in the debate on diversity, remuneration and integrated reporting.

When we look at the more detailed table of responsibilities by area, which we put together last year, along with the feedback from the 2011/12 Board assessment, it is clear that there are opportunities for us to:

- improve papers and presentations, including context, content and timeliness;
- create a better framework to facilitate constructive debate, especially in relation to strategy;
- ensure a more strategic review of the forward agenda;
- continue our engagement with senior management below Board level; and
- following intensive induction on joining, review ongoing knowledge and training for all directors.

Action Plan 2012/13

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

During the year, the Board plans to:

- continue to drive the agenda on succession planning and development of key managers;
- continue to improve engagement with shareholders and representative bodies, and transparency and disclosure;
- continue to review ongoing knowledge and training for all directors;
- continue to drive better understanding of risk, risk tolerance and appetite; and
- continue to review long-term forward agenda and papers and framework for Board discussion.

Director induction

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

During the year we supported induction programmes for Laura Wade-Gery, Executive Director Multi-channel E-commerce and Vindi Banga and Miranda Curtis: our two new non-executive directors.

Accountability

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

What is our approach to risk management?

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

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

To ensure our risk process drives improvement across the business, the Executive Board monitors ongoing status and progress of key action plans against each risk on a quarterly basis. Whilst we continue to broaden the debate around tolerance and appetite, risk is now a key consideration in all strategic decision-making at a Board level.

Key areas of focus

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

Our process continues to be focused on the following key principles:

1. Alignment with the Group plan
Each business area has clear objectives aligned to the plan. Risk champions have refreshed their business area risk registers against the context of these objectives, ensuring that the risks upon which we are focusing are of strategic importance to the Group and that key risks to delivery are highlighted. As a result, we have added two new risks this year: **Distribution centre restructure** and **Business continuity.**

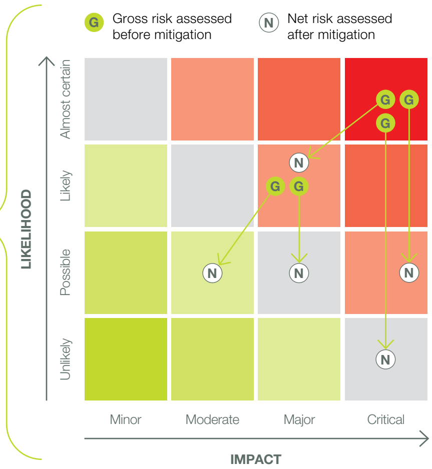
2. Focused risk descriptions
As our understanding of the Group's risks develops, we are refining how these are defined. For example, we have widened last year's **Economic outlook** risk to encompass achievement of the Group plan rather than focusing on our sales forecast.

3. Action plans for key risks
We have also improved our distinction between 'business as usual' mitigating controls (incorporated in our net risk scoring), and additional mitigating actions taken to further reduce net risk over time.

1 Risk identification
Risks highlighted and documented in a centrally managed Risk Register

2 Risk assessment
Risks assessed in terms of likelihood of occurrence and potential impact on the Group

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



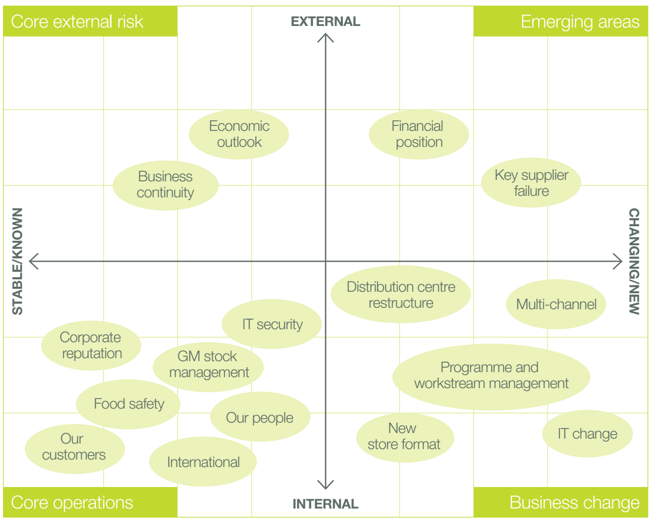
Our principal risks and uncertainties

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

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

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

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



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

Accountability continued

Description	Mitigating activities
Finance We continue to focus on maintaining a strong financial position that supports improvements to our business.	
Economic outlook **Worsening economic conditions impact consumer confidence and our ability to achieve the plan** As consumers' disposable incomes come under pressure from price inflation and government austerity measures, trading conditions continue to remain a challenge for our business.	– We regularly review and monitor the effectiveness of our pricing and promotional strategies across our General Merchandise (GM) and Food businesses, tailoring our consumer offering where appropriate. – The business continues to actively manage and minimise costs where appropriate and regularly reviews customer feedback and our positioning in the market place to ensure we meet customer expectations.
Financial position **Deterioration in our financial position limits our flexibility and ability to fund and grow the business** In the event that the Group's financial performance does not meet market expectations, our ability to borrow from lenders on our existing terms may be impacted, resulting in increases to the cost of borrowing and insufficient funding to meet our capital requirements and growth plans.	– Group Treasury regularly carries out forecasting of our debt capacity, financial covenants and other rating metrics within current rating bands. – The funding level of our pension scheme is monitored in collaboration with the Trustees on a regular basis, with clear parameters in place that would trigger an intra-valuation debate between the Trustees and the Company. – We have regular communication with rating agencies and brokers. – Group Treasury proactively monitor the potential for a Eurozone break up and where possible assess the impact this could have on the Group's financing and derivatives.
Brand and reputation Our founding principles of Quality, Value, Service, Innovation and Trust continue to influence 'how we do business' and our reputation for being one of the UK's most trusted brands.	
Corporate reputation **External expectations relating to our financial performance, Plan A commitments or corporate governance are not adequately managed** Our brand continues to be trusted in the marketplace, with Plan A and robust governance being integral components. A strong brand brings high expectations and the need to consistently deliver quality, value and trust to our wide stakeholder base. The business must also manage significant external expectation regarding our plan.	– The business follows a clear plan to effectively communicate key information to internal and external stakeholders (and other external parties). – Group KPIs and benefits tracking for all strategic initiatives enable regular monitoring of business and key programme performance. – Our commitment to Plan A and becoming the world's most sustainable retailer by 2015 remains a priority for the Group with one of our key objectives being for all M&S products to have at least one Plan A quality by 2020. – Policies and procedures are in place to meet the requirements of the Bribery Act, supported by a training programme.
Our customers **Loss of engagement with our core 55+ customer** As we seek to enhance the M&S brand and make our sub brands more distinctive, it is important that we continue to address our core customers' specific needs in an increasingly competitive and economically uncertain market.	– GM and Marketing have prioritised focus on our core customer and will continue to respond to sales and customer reaction to product/in-store experience through focus groups, online reviews and our in-house Customer Insight Unit. – We are in the process of delivering improvements to our stores to strengthen and clarify our brand in response to customer research.
Food safety **A food safety incident occurs or is not effectively managed** As a leading retailer of fine quality fresh food in the UK, it is paramount that the food products we sell to our customers are safe, especially as we introduce more operational complexity such as delis and bakeries as part of our new store format.	– We have a dedicated team in place to ensure that all M&S food products are safe for consumption through rigorous controls and processes, with a continuous focus on quality. We apply this approach to all new initiatives and locations. – We maintain robust governance of the supply base through our supplier audit programme and reporting process. Depot auditing is now also well established.
People and change Our people are fundamental to the long-term success and growth of this business.	
Our people **Reduced engagement and retention of key employees impacts our ability to deliver business plans** As we go through a period of economic uncertainty as well as a number of internal change initiatives, it is ever more important to ensure that M&S remains a great place to work.	– A monthly briefing is cascaded to our top managers, a quarterly results broadcast is held for all employees and Directors regularly hold employee engagement sessions to communicate the growth ambitions and underlying plans for the business. – Development of future talent remains a key priority. Managers attend our 'Lead to Succeed' programme, helping them to realise their full potential, whilst succession planning is a key area of focus for the Board. – We plan to roll out an improved performance and talent management process to ensure robust career development discussions take place across the business.
Programme and workstream management **Benefits from our major business programmes and workstreams are not realised** We continue to undertake a number of major strategic programmes to underpin the achievement of our plan; the delivery of forecasted benefits is critical to this.	– Our Strategic Programme Office centrally governs the strategic initiatives across the Group, performs regular reviews and updates the Executive Board on their status, tracking of costs and realisation of benefits. – All major programmes possess their own governance structures, supported by robust project management discipline.
Distribution centre restructure NEW **We fail to effectively deliver our new national e-commerce distribution centre** We are opening a new national distribution centre which will also service all customer orders placed through Shop Your Way. The implementation of this distribution centre relies on a number of new facilities, business processes and systems.	– We are taking a phased approach to implementation for our new distribution centre, and robust governance structures exist to engage all areas of the business. – Simulation models are being used to test the robustness of the facility in different scenarios and a programme is in place to ensure open dialogue with key partners. – We will continue to implement measures to test and manage facility performance.

Description	Mitigating activities
Selling channels We have ambitious plans for our UK, International and Multi-channel businesses as part of our commitment to becoming a leading international multi-channel retailer by 2015.	
New store format **Failure to deliver improvements across our store estate to time, to budget or to the desired quality** We are delivering improvements to our stores to strengthen and clarify our brand in response to customer research. As we move into the second phase of the roll-out, adherence to programme schedules, budget and quality standards will be key to successful delivery.	– Our new store format initiative, designed to improve the customer shopping experience and our brand positioning, is well underway and we continue to implement a phased roll out across our store estate. – Close monitoring of costs and of progress against plan is in place, with direct reporting lines into the Executive Board. This will continue as we move into the second phase of roll-out. – We are closely managing the impact on our stores and have developed innovative training programmes to minimise time off the shop floor.
Multi-channel **A new online platform with flexibility to support future growth is not delivered by the time our contract with Amazon expires** To achieve our target to become a leading multi-channel retailer and to make our brand more accessible, we are investing in a new online platform that will provide both an enhanced shopping experience and help to accelerate our growth.	– Our multi-channel growth strategy is underpinned by a clear plan for implementation of the new platform both in the UK and overseas. – We are working closely with our partner Amazon to ensure the quality of our existing online offering is not compromised whilst we build the new platform. – A phased approach for implementation of the new platform is planned.
International **Failure to leverage our systems, processes and controls limits growth of our International business** To increase our international presence and build a leadership position in priority markets, we must adopt an organisation structure that is supported by robust systems and supply chain capability.	– The appointment of Heads of Region for Europe, Middle East and Asia will facilitate the implementation of our international growth plans. – The focus on enhancing international systems and processes has continued throughout the year in alignment with the development of our international strategy and will remain a priority for the year ahead.
Day-to-day operation We are a customer-centric business and strive to deliver an efficient and effective operation.	
GM stock management **Ineffective stock management control impacts either gross margin delivery or product availability** Effective stock management is integral to ensuring that we provide good availability to our customers, whilst minimising markdowns which can impact profitability.	– General Merchandise (GM) continue to closely monitor stock levels, targeting areas with more or less than required. Promotions are tightly controlled, and we are focusing on our ability to respond in-season to current trends and sales performance. – A Stock, Sales & Intake tool is now being used across GM and we have implemented a new stock ledger in parallel run with legacy systems, prior to full business adoption.
Key supplier failure **Failure of a key supplier or third party provider** Economic or geo-political conditions, or changes to the way we source our goods and services, cause a key supplier to fail, or disrupt the supply of key product lines or services.	– We have strengthened our monitoring of top suppliers, with a quarterly risk assessment process in place for key merchandise and non-merchandise suppliers. – Alternative supply routes are continually monitored and, where appropriate, the supply base has been consolidated. – We continue to offer payment terms that are sufficiently flexible to assist suppliers as required.
IT security **We experience a major breach in IT security** The business is subject to external threats from hackers or viruses, or sensitive data is accessed without authorisation.	– Extensive security controls are in place in accordance with International Standards, along with a number of policies and technologies designed to enhance security. – Sensitive data is tightly controlled through limited and monitored access, and the roll-out of systems incorporating enhanced security.
IT change **Unforeseen impact of IT changes to new and existing systems disrupts business operations** As we undertake a number of significant change programmes, the rate and scale of IT change is increasing, with potential to significantly impact our complex and interdependent systems.	– We continue to proactively manage cross programme dependencies and have introduced 'release management' to group system changes together. – We have a clear decision-making process for system changes, including the adoption of change freezes during critical trading periods. – Disaster Recovery plans for critical business applications have been tested.
Business continuity NEW **We fail to adequately manage or respond to a Group-wide disaster** The business faces a heightened level of risk as a result of the Summer 2012 events taking place in the UK.	– Group continuity plans, incident reporting and management procedures are well established. We monitor these through an annual crisis management exercise and quarterly committee meetings. – We have a number of policies and procedures in place to manage the safety of our employees when abroad, and have links with the Home Office and government agencies to receive information on known threats.

We have removed a number of risks from our Group Risk Profile since the prior year, including Food competition, Product costs and Supply chain management. The Group has undertaken significant mitigating activity in response to these risks and as such their inclusion in the Group Risk Profile is not deemed necessary at this moment in time.

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

Further information on the financial risks we face and how they are managed is provided on pages 97 to 102.

Accountability continued

Risk interconnectivity

Over time, globalisation, changing business models and technological advances have resulted in a business environment increasingly interconnected through systems and processes. Whilst this can be beneficial, it also increases the interdependency of risk. As a Group, we recognise this and continually strive to refine our risk management processes in response.

The diagram depicts our current Group Risk Profile, plus three risks removed since last year. It is designed to highlight how changes to one risk could impact on those connected to it, and on the profile as a whole.

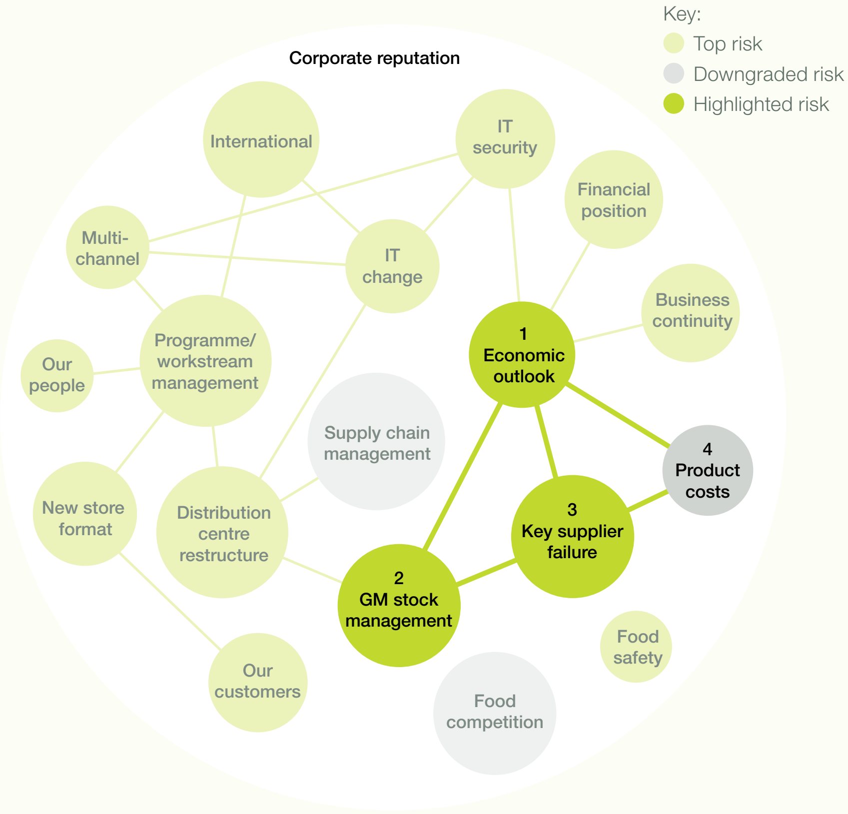
1 Deterioration in the **Economic outlook** could impact our sales performance.

2 This requires greater control over **General Merchandise (GM) stock management.**

3 Reduced order volumes could increase the risk of **Key supplier failure** if they experience pressure from other economic factors.

4 Competition over retail selling prices may require us to reduce **Product costs**, increasing pressure on suppliers.

Following significant mitigating activity, Product costs is not considered a top risk to the Group at this time. It still features in our detailed risk registers and by understanding risk interconnectivity, we can monitor factors such as the economy to ensure we can appropriately manage any likely impact on our supply base.



Risk and the role of Internal Audit

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

Risk: International

M&S Czech Republic operates 48 stores across six countries selling primarily General Merchandise (GM) goods. The audit assessed the adequacy and effectiveness of internal controls over core operations, including stores and support functions. The report highlighted areas for control improvement in strategic decision-making at a local level, GM stock management and retail operations. A pilot of a centrally managed stock allocation and range planning system has been implemented.

Risk: New store format

Internal Audit scheduled a review of our new store format initiative due to the pace of delivery and level of investment in the programme. The scope focused specifically on Property and included processes relating to project planning, cost control, supplier selection and fire, health & safety. The audit report provided assurance to management and the Audit Committee that there were robust programme management controls in place and, although some minor areas for improvement were identified, the overall control environment was strong.

Risk: IT security

We engage a number of third-party service providers who host or process sensitive or confidential data on our behalf. Internal Audit reviewed the processes and controls in place to mitigate the risk of unauthorised release or exposure of such data. The report confirmed that the security assessment methodology is robust, and that significant external data hosting or processing activities adhere without exception, enforced by our IT Change process. Opportunities existed to improve process compliance and business area awareness for smaller initiatives.

Risk: Food safety

Food innovation and quality help to differentiate M&S and we are committed to ongoing new product development (NPD), whilst maintaining food safety standards. Internal Audit conducted an audit review to assess the adequacy and effectiveness of internal controls over NPD. The audit report provided assurance that effective controls exist over this core process and also identified opportunities to enhance monitoring of product development costs and the use of success criteria.

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

Engagement

Robert Swannell, Chairman

Understanding differing opinions is a key part of driving our business forward. We are very interested in understanding the views of our investors, and continue to engage with many of them. Marc Bolland, Alan Stewart and our Investor Relations team met with representatives from over 300 investment institutions during the year to answer their questions and keep them updated on our performance and plans. These ranged from one-on-one meetings to group presentations and investor conference calls following our results announcements. Any presentations provided in these meetings are uploaded to our website and comments are fed back to the Board and its Committees.

During the year I also met with a number of investors and industry representatives to answer their questions and better understand their policies on governance and voting. I also look to stakeholder websites for information on their voting and positions on stewardship at AGMs. We welcome further engagement from institutions as they make progress in adopting the Financial Reporting Council's Stewardship Code.

In June 2011 we held our first governance event. Our largest investors, industry governance specialists and voting advisory companies were invited to our office to meet me, the Deputy Chairman, Sir David Michels, the Chairman of our Remuneration Committee, Steven Holliday and our Director of Plan A to discuss key governance matters. The meeting was well attended, received positive feedback and will be repeated again in 2012.

For an independent view, Makinson Cowell, the capital markets advisory firm, continues to provide the Board with an annual presentation of major investors' views on Company management and performance. This is based on the results of extensive surveys and interviews. This report is presented each year ahead of the AGM.

Amanda Mellor, Group Secretary

During the year we continued our active engagement with investors, representative bodies and governance organisations. In addition to the investor meetings and discussions on governance related matters I also gave a number of presentations and lectures on the way M&S approaches governance and stewardship to industry contacts and other company secretariat teams.

Several government and regulatory consultation documents were released during 2011/12. The Company has responded to a number of these, keen to ensure that we help shape good regulation and legislation.

Private shareholders continue to represent 95% of the shareholders on our share register and we value their opinions and continue to actively engage with them throughout the year.

We circulate shareholder topics cards with our Notice of Meeting to ensure that the views of those shareholders unable to attend our AGM are heard. Those returned are summarised, presented to the Board and senior management, the Chairman address the top three topics at the meeting. Many are responded to directly. Shareholders can also email the Chairman with their comments, write to us or telephone our helpline.

We continue to encourage shareholders to become more informed investors. A wealth of information is available on our website throughout the year and our trading statements and financial results are emailed to those shareholders that have provided us with email addresses and requested to receive electronic communication. This year we have added quick response (QR) code links in some areas of this report, in the Notice of Meeting and on our voting forms. These allow fast access, via a smartphone, to information which the reader may find useful. Also released during the year is our investor relations app for the iPad, more information on this is provided on the next page. We recognise that not all of our shareholders are online or have these devices, so we suggest they receive our smaller M&S 'At-a-Glance' booklet, published with the private investor in mind, rather than the full report or review.

We remain committed to our lost shareholder programme and our search agent, ProSearch, continues to seek out those that have failed to keep their details up to date. Despite all our efforts there are some instances where we are unable to find the shareholder. For this reason we introduced our share forfeiture programme; an industry first established to utilise funds from these dormant accounts. The first funds were forfeited in April 2011 and have supported the M&S Company Archive. The relocation of the Archive this year to M&S's birthplace in Leeds has provided a unique opportunity to celebrate both the rich history of Marks & Spencer and the enormous benefits achieved by opening up the collection for the Company, academics and the wider community. Further funds were forfeited in April 2012, which will also be used for good causes.

What happens at our AGM?

The Notice of Meeting sets out the resolutions being proposed at the Annual General Meeting (10 July 2012 at 11am). Last year all resolutions were passed with votes ranging from 84.8% to 99.9%.

In 2011 our AGM attracted close to 2,000 people with more joining via our live webcast. This year our Notice of Meeting advises some changes we are making to the format of the meeting. We have moved the meeting by one day to avoid a clash with two other high profile companies with large private shareholder bases. The meeting has also been moved from 2pm to 11am. Once again, the meeting will be webcast live and a recording of the meeting added to our website for later viewing.

Shareholders unable to attend are encouraged to vote in advance of the meeting, online at sharevote.co.uk or by using the proxy card which we mail to them. Last year, like other FTSE 100 companies, we were disappointed to see a marked reduction in voting from private shareholders. Although the documents were already considered easy to complete, we have redesigned our voting stationery to try to make them clearer. Over 95% of our shareholders are private investors, we value their opinions and would like to see more voting cards returned from them.

Engagement continued

Experience online

Whether it's through marksandspencer.com/thecompany or our Investor Relations app for the iPad, (available free of charge), online shareholders can be much more informed throughout the year.

Website

The M&S website contains a wealth of information, such as:

- Latest M&S news, Stock Exchange announcements and press release alerts;
- Annual Report and Investor presentations;
- Detailed account of how we have complied with the UK Corporate Governance Code 2010;
- Our full Governance Framework, including Committee Terms of Reference and director accountabilities;
- Our Code of Ethics and Behaviours;
- Our Auditor Engagement Policy for our external auditors; and
- Our Articles of Association.

Free Investor Relations app for the iPad

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

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

Pensions governance

The Group operates a pension scheme (the 'Scheme') which has a defined benefit ('DB') section for employees with an appointment date prior to 1 April 2002 and a defined contribution ('DC') section open to those joining the Company on or after 1 April 2002 and before 1 November 2012 when a new Master Trust arrangement will be introduced.

The Board of the Pension Trust ('Trustee Board') manages the DB and DC assets of the pension scheme, which are held under trust separately from those of the Group. The Board has four main committees: DB, DC, Investment and Actuarial Valuation. The 31 March 2012 Actuarial Valuation will benefit from the enhanced monitoring of key metrics which has been established in conjunction with the Group since the 2009 valuation.

The Trustee Board of 12 members is chaired by Graham Oakley, who commenced a five-year term in April 2011, having been a member of the Board since 2000. The Trustee Board includes two independent directors plus five member representatives who are appointed through a selection process which embeds efficient succession rotation planning. During the year the Board has been recognised through external awards for its excellence in governance, training and investment risk reduction strategies. The DC section is a holder of the National Association of Pensions Funds Pensions Quality Mark Plus.

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

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

All advisers, investment managers and suppliers are appointed through a rigorous tender process. They are monitored via quarterly reports and periodic meetings and there is also a rolling programme of both informal and formal adviser reviews. During 2011/12 the appointment of the covenant monitoring service was reviewed and Ernst & Young LLP were retained.

The Scheme is a signatory to the UN Principles for Responsible Investment and the Trustee has partnered with a specialist engagement service, Hermes Equity Ownership Services (EOS), to exercise its global equity voting rights in accordance with a detailed Trustee policy, which addresses a range of governance, social and environmental issues. EOS has also enhanced the Trustee's stewardship and governance oversight of investee companies by engaging with companies, on a global basis, where management is considered not to be acting in the best long-term interests of investors. The results of these voting and engagement activities are published quarterly on the M&S website. During the year the Scheme also became a signatory to the UK Stewardship Code which was published by the Financial Reporting Council in July 2010.

Nomination Committee

Chairman's overview

Robert Swanell

We have had another active year, making very good progress against all the actions in our 2011/12 action plan.

First, we secured the appointment of two new non-executive directors, Vindi Banga and Miranda Curtis, to succeed Louise Patten and Deputy Chairman Sir David Michels on their retirement from the Board.

For each position we spent time reviewing the existing skill-set on the Board, discussing our diversity in line with our new policy (details of our Board diversity policy objectives can be found below), specifically in terms of background and experiences, nationality and gender, and balancing this against what the business will need to become an international multi-channel retailer. We spent considerable time with our external consultants managing a formal, thorough and orderly search, reviewing all those potential candidates that might fit our criteria. We interviewed rigorously and have secured what we believe to be two excellent appointments to the Board. Both directors have undertaken extensive induction programmes to ensure a rounded understanding of the business and its ambitions. Further information on these induction programmes can found at marksandspencer.com/thecompany.

In conjunction with these appointments, we reviewed our Committee composition and made a number of changes. We also recommended the appointment of Jan du Plessis as Senior Independent Director.

Again, in line with our action plan from last year, we have focused on ensuring that succession is a key agenda item. We have spent time looking at succession planning for the Executive Director team as well the Board over the medium to long term. We have also discussed talent and succession for the top managers in the business.

Effectiveness of the Nomination Committee

Who is on our Committee?

	From	Nomination Committee	
Name of Director		A	B
Robert Swannell (Committee Chairman)	4 Oct 2010	5	5
Marc Bolland	1 May 2010	5	5
Sir David Michels	(Retired 29 Feb 2012)	4	4
Vindi Banga[1]	3 Sept 2011	3	2
Miranda Curtis	3 Feb 2012	1	1
Jeremy Darroch	1 Feb 2006	5	5
Martha Lane Fox	1 June 2007	5	5
Steven Holliday	15 July 2004	5	5
Louise Patten	(Retired 13 July 2011)	2	2
Jan du Plessis	1 Nov 2008	5	5

A = Maximum number of meetings the director could have attended
B = Number of meetings the director actually attended
1) Vindi Banga was unable to attend the Committee meeting on 18 January 2012 due to business commitments in the US.

What has the Committee done during the year?

- Conducted a thorough and transparent appointment process for the recommendation of two new non-executive directors to ensure the Board is appropriately supported and strengthened for the future;
- Conducted a thorough review and debated Board skills and diversity to ensure the Board has the right balance of skills and experience to support the future development of the business;
- Reviewed the Board and Committee composition following the new non-executive director appointments and retirement of existing directors;
- Recommended the appointment of Jan du Plessis as Senior Independent Director to replace Sir David Michels on his retirement from the Board;
- Created a clear framework to review succession planning and development for the executive director team and the Board for the medium term; and
- Supported greater engagement with key managers with non-executive director-only meetings.

What is the action plan for 2012/13?

- Continue to support succession plans and development of the executive director team;
- Continue to drive the understanding of talent across the organisation and support our development programme for key managers;
- Continue to review ongoing knowledge and training for all directors; and
- Continue to ensure that we plan for the evolution of non-executive directors over the medium term to maintain the appropriate mix of skills.

Board Diversity Policy

Our Board diversity policy introduced this year seeks to ensure that diversity in its broadest sense continues to remain a significant feature of the M&S Board. We will report against the objectives below in 2012/13:

- maintain a level of at least 30% female directors on the Board over the short to medium term;
- 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;
- consider candidates for appointment as non-executive directors from a wider pool including those with little or no listed company board experience;
- ensure non-executive directors 'long lists' include 50% women candidates;
- only engage executive search firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice;
- report annually against these objectives and other initiatives taking place within the Company which promote gender and other forms of diversity; and
- report annually on the outcome of the Board evaluation, the composition and structure of the Board as well as any issues and challenges the Board is facing when considering the diverse make up of the Company.

Audit Committee

Chairman's overview

Jeremy Darroch

Last year I advised that we would work with the Board to review any changes to the risk profile and support the Board debate on risk tolerance and appetite. The Committee remains satisfied that the Board maintains sound risk management and internal controls.

As a committee we are also keen to ensure key representatives of the business have fully considered the risks their business areas face, that these risks are being managed and do not exceed the Board's appetite or tolerance levels.

We focus on the risk profiles for each business unit and review what actions they are taking or processes they have in place to manage or mitigate their risk. Assurance is provided through executive update presentations at each Audit Committee meeting. During 2011/12 the Committee received presentations from the directors of Business Continuity, Plan A, General Merchandise Ethical Sourcing, International Business Development and Data Security. Further information on the presentations is provided on the next page.

The presentations facilitate real engagement between Committee members and the business unit directors. Feedback from the business continues to be positive with recognition of the value this channel provides and the experience the Committee shares.

External auditor

Key to giving us confidence in the Group's approach to controls and risk is the effectiveness of our external auditors, PricewaterhouseCoopers LLP. Their effectiveness enables us to recommend their reappointment for 2012/13. We judge them on the quality of their audit findings, management's response and stakeholder feedback. Their independence is displayed through their challenge to management. Their audit and non-audit fees are set and reviewed each year

Effectiveness of the Audit Committee

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

Who is on our Committee?

Name of Director	From	Audit Committee A	Audit Committee B
Jeremy Darroch (Committee Chairman)	1 Sept 2006	6	6
Sir David Michels[1]	(retired 29 Feb 2012)	4	3
Martha Lane Fox	1 June 2007	6	6
Steven Holliday	15 July 2004	6	6
Louise Patten[2]	(retired 13 July 2011)	1	0
Jan du Plessis[3]	1 Nov 2008	6	5

A = Maximum number of meetings the director could have attended
B = Number of meetings the director actually attended
1) Sir David Michels was unable to attend the Committee meeting on 7 September 2011 due to personal commitments.
2) Louise Patten was unable to attend the Committee meeting on 16 May 2011 due to personal commitments.
3) Jan du Plessis was unable to attend the Committee meeting on 2 November 2011 due to overseas business commitments with Rio Tinto.

What has the Committee done during the year?

The Committee made progress on their action points during the 2011/12 financial year, with the exception of a review of internal audit effectiveness, which was impacted by several changes within the internal audit team:

- The Committee composition was reviewed along with Board and other Committee composition. Following the retirement of Sir David Michels, the Committee comprises four members. The Audit Committee is fully independent and contains what we believe to be the right balance of knowledge, skill and experience to support the business in achieving its plan;
- The Company has made good progress on risk during the year, resulting in better process, understanding and awareness combined with a greater engagement right across the business. The debate on risk, risk tolerance and risk appetite will continue to be a focus for the Board and for the Committee during the next year;
- An anti-bribery policy has been developed and implemented following the Bribery Act coming into force. Its introduction was supported by a training programme containing a short video and online training module. Gift registers have been introduced to ensure transparency. These will be managed by each department and reviewed annually by Internal Audit, with any notable items highlighted to the Committee;
- The Committee reviewed Data Security and Data Management. The Code of Ethics is being updated to reflect any changes to the policy or law, including the Bribery Act;
- The Committee reviewed the Company's ongoing discussions with the FRPP.
- Personnel changes within the Audit team has led to the deferral of our review of Internal Audit effectiveness in line with the Chartered Institute of Internal Audit requirements. However, we intend to complete this during 2012/13.
- As a Committee we have continued to enhance our understanding of key business areas receiving presentations on key risks from a broad spectrum of the business activities; and
- The Committees were independently reviewed by Ffion Hague of Independent Board Evaluation.

What is the action plan for 2012/13?

Looking ahead the Committee believes it is important to remain focused on the audit, assurance and risk process within the business. The actions for 2012/13 are:

- strategic review of our internal audit and assurance plan to ensure alignment and support of the Company's plan;
- review internal audit effectiveness in line with the Chartered Institute of Internal Audit requirements;
- continue to improve understanding of key business areas;
- continue to broaden the debate around risk tolerance and appetite; and
- review ongoing learning requirements and potential up-skilling.

(see note 4). We ensure that our auditor engagement policy, which is reviewed annually and disclosed on our website marksandspencer.com/thecompany, is adhered to when non-audit work is commissioned. Audit partner rotation is also important to retain the objectivity of the process – Stuart Watson was appointed lead audit engagement partner in 2008/09.

Committee updates

In addition to the regular renew of audit compliance and process controls, the Committee received a number of detailed reviews from a number of business areas. Updates received by the Committee provided detail on the progress made over the year and the ongoing objectives. A brief overview of the detail covered in these updates is provided below.

Business Continuity

- Reviewed the tools and processes established to ensure we have the capability to protect our people, the brand, property and profit at all times;
- Received plans for all locations both nationally and internationally;
- Discussed plans for the Olympics and the Queen's Diamond Jubilee;
- Full medical and security package introduced for all business travellers;
- Travel tracker system introduced both nationally and internationally;
- Group training awareness programme launched; and
- Evacuation pack and welfare response.

Plan A

- External International Advisory Board established, comprising academics and advisors, extending our reach to reflect the countries we operate in and source from;
- Discussed progress in reducing carbon emissions, improvements in fuel and energy efficiency, reduction in waste and packaging, improvements in recycling and the M&S/Oxfam clothes exchange;
- Update on work with suppliers to set up 12 Ethical Model factories in Bangladesh and three in India;
- Review of commitments against plan;
- Overview of discussions with UNICEF outside the UK on social development programmes linked to the garment industry; and
- Overview of what we believe will be benchmarked as industry leading positions across a number of key areas.

General Merchandise ethical sourcing

- Reviewed how we manage the ethical risks across our supply chain outlining our ethical trading approach across 1.7 million workers, spread over 1,448 sites in over 77 countries with 55 different languages;
- Considered the key ethical issues including: excessive working hours, poor health and safety, terms and conditions of employment, migrant labour, and low wages;
- Discussed the team and the independent ethical trading division based in our regional offices in China, India, Vietnam, Sri Lanka, Bangladesh, Turkey and the UK.

M&S was the first UK retailer to establish a clear set of labour standards in 1998 known as our Global Sourcing Principles. Each supplier must agree to and sign our terms and conditions, which include these Principles. M&S has been a founding member of the Ethical Trading Initiative since 1998 and we have established ethical policies on key issues. We have a clear factory approval process which is independent from our buying departments.

International business development

- Focused on the risks to our international growth – each risk was highlighted and discussed, alongside the relevant mitigating action which was either recently taken or in progress;
- Discussed the team and its integration – the presentation also covered the performance of our partly-owned businesses, franchise operations, ethical reputation and the importance of having an aligned approach across the business.

Data security

Updates relating to our investment in IT security, building of the new retail website platform and the move from the current platform supported by Amazon. International activities, user access and the controls around the protection of personal data. Policies were reviewed as was the recruitment of resource and the skill sets these individuals bring to M&S.

Assurance

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

- systems of internal control, covering all material controls, including financial, operational and compliance controls and risk management systems, primarily through approving the internal audit plan and reviewing its findings, reviews of the annual and half year financial statements and a review of the nature, scope and reports of external audit;
- management of risk by reviewing evidence of risk assessment activity and an internal audit report on the process; and
- action taken or to be taken to manage critical risks or to remedy any control failings or weaknesses identified.

The Audit Committee has completed its review of the effectiveness of the Group's systems of internal control during the year and up to the date of this Annual Report, in accordance with the requirements of the revised Turnbull Guidance on Internal Control, published by the FRC. It confirms that no significant failings or weaknesses were identified in the review for 2011/12. Where areas for improvement were identified, processes are in place to ensure that the necessary action is taken and that progress is monitored.

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

Remuneration report

Remuneration committee

Steven Holliday

As Chairman of the Remuneration Committee, I am acutely aware of the increased focus on executive pay over the past 12 months. This year we have once again focused on being transparent, providing clear reporting on past pay and future policy and potentials.

The Government announced proposals to improve the transparency of reporting in this area and to give greater shareholder power over future pay policy. We believe that linking pay to company performance and the associated dialogue with shareholders is fundamental to the remit of any Remuneration Committee. The Committee therefore carefully considered the proposals and responded to the consultation paper from the Department for Business, Innovation & Skills on Executive Remuneration and for that on Narrative Reporting. We have also met with investors, representative bodies, government and governance organisations to discuss wider remuneration issues.

Whilst the final regulations have yet to be determined, we believe that the Company already addresses many of the proposals. Last year's Remuneration report was highly commended by PwC under the 'Building Public Trust Awards for FTSE Executive Remuneration Reporting'.

We believe that the Remuneration Committee provides a strong and independent challenge on remuneration. At M&S this was particularly demonstrated with the design of the revised remuneration framework set out in last year's report, which clearly links reward to Company strategy. Our long-term philosophy for remuneration remains to attract and retain leaders who are focused and encouraged to deliver business priorities within a framework that is aligned with the interests of the Company's shareholders. Our practice therefore is to ensure our remuneration provides the appropriate incentives to reward performance that protects the long-term interests of our stakeholders, and which will enable us to develop an internationally competitive business, led by top class professionals.

When reviewing the appropriateness of the remuneration framework this year, the Committee considered the incentive arrangements introduced in 2011 not only in the context of the business strategy but also against current external guidelines for executive remuneration. As a result of this review, the Committee agreed that the current framework remained appropriate and did not require any changes.

Despite difficult trading in a year of global economic turbulence, the Committee was satisfied that significant progress was made towards delivery of the key strategic priorities.

Steven Holliday
Chairman of the Remuneration Committee

Remuneration Committee

What is the remit of the Remuneration Committee?

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

The full terms of reference for the Committee can be found on the Company's website at marksandspencer.com/thecompany, with the key responsibilities summarised as follows:

- setting a senior remuneration strategy that ensures the most talented leaders are recruited, retained and motivated to deliver results;
- reviewing the effectiveness of the senior remuneration policy with regard to its impact and compatibility with the policy and arrangements throughout the rest of the organisation;
- determining the terms of employment and remuneration for executive directors and senior managers, including recruitment and termination terms;
- approving the design, targets and payments made for any annual incentive schemes that include executive directors and senior managers;
- agreeing the design, targets and annual awards made for all share incentive plans requiring shareholder approval; and
- assessing the appropriateness and subsequent achievement of the performance targets relating to any share incentive plan.

In undertaking these responsibilities, the Committee seeks independent external advice as necessary. To this end the Committee continued to retain the services of Deloitte LLP. The Committee also seeks internal support from the Chairman, Group Secretary, Director of Human Resources and Head of Employee Relations and Reward, all of whom may attend the Committee meetings by invitation, but are not present for any discussions that relate directly to their own remuneration.

The Committee also regularly reviews external data produced through several surveys and bespoke benchmarking data, including those published by Aon Hewitt (acting through the brand of New Bridge Street), KPMG, Monks PwC and Towers Watson.

This Remuneration Report has been prepared on behalf of the Board by the Remuneration Committee. The Committee adopts the principles of good governance as set out in the UK Corporate Governance Code and complies with the Listing Rules of the Financial Services Authority and the relevant schedules of the Companies Act 2006 and the Directors' Remuneration Report Regulations in Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. These regulations require the Company's auditors to report on the 'Audited Information' in the report and to state that this section has been properly prepared in accordance with these regulations. For this reason, the report is divided into audited and unaudited information, and is subject to shareholder approval at the Annual General Meeting (AGM) on 10 July 2012.

Part 1: unaudited information

Effectiveness of the Remuneration Committee

Who's on our Committee?

The following independent non-executive directors were members of the Committee during 2011/12:

Member	From	Committee Meetings A	Committee Meetings B
Steven Holliday (Chairman since 8 Sept 2009)	15 July 2004	6	6
Vindi Banga	1 Sept 2011	3	3
Miranda Curtis	1 Feb 2012	2	2
Martha Lane Fox	(stepped down 7 Sept 2011)	3	3
Sir David Michels[1]	(retired 29 Feb 2012)	5	3
Louise Patten[2]	(retired 13 July 2011)	2	1
Jan du Plessis	8 Sept 2009	6	6

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

1) Sir David Michels was unable to attend the Committee meeting on 7 December 2011 due to overseas business commitments and the Committee meeting on 20 February 2012 due to personal reasons.

2) Louise Patten was unable to attend the Committee meeting on 16 May 2011 due to personal reasons.

What has the Committee done during the year?

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

Regular items:

- approval of the 2011 Directors' Remuneration report and review of the outcome of AGM voting for the report;
- review of all share plan performance measures against 2011/12 half year and year end targets, including ratification of vesting levels for any 'good leavers' from the Company;
- agreement to and finalisation of the vesting level for the 2009 Performance Share Plan awards;
- review achievement of Annual Bonus Scheme profit against target and executive directors' individual objectives for 2011/12;
- review and approval of all awards made under the Performance Share Plan, taking into account the total value of all awards made under this plan;
- review of director shareholding guidelines and achievement of these for each executive director;
- extensive consideration of advisory bodies' and institutional investors' current guidelines on executive compensation;
- annual review of all executive directors' and senior managers' base salaries and benefits in line with Company principles and ratification of salary increases;
- assessment of the risk environment surrounding the Company's current remuneration arrangements;
- design and targets for the 2012/13 Annual Bonus Scheme, including sign off of individual objectives for executive directors;
- consideration of the performance measures and targets to be applied to the 2012 Performance Share Plan awards;
- Committee's reasoning and consideration for vesting and payment levels clearly articulated to executive directors;
- review of Committee performance in 2011/12; and
- review of Committee terms of reference.

Other items:

- consideration of external market developments in remuneration, including the Department of Business, Innovation & Skills (BIS) consultation on executive remuneration and participation in the meeting between 44 FTSE 100 companies and 44 pension schemes attended by Vince Cable, the NAPF and Hermes EOS;
- assessment of Disguised Remuneration legislation and the impact on the operation of the Company's share plans;
- review of the impact of pension auto-enrolment on the current pension arrangements for executive directors;
- agreement to propose the renewal of the Share Incentive Plan at the 2012 AGM; and
- review of and agreement to amendments to share plan rules to support the Company's international strategy.

What is the action plan for 2012/13?

As a result of the review of the Committee's performance and effectiveness, the following actions have been agreed for 2012/13:

- ongoing remuneration training of the Committee;
- continue focus on shareholder engagement regarding the remuneration debate;
- improve transparency and quality of remuneration disclosure;
- ensure both long-term and short-term incentives remain appropriate when reviewed against internal strategy and other market schemes; and
- improve systematic monitoring of outcomes of past decisions.

Remuneration report continued

What are the key elements of remuneration for executive directors?

The Committee considers the key elements in total to ensure there is the right balance between reward for short-term success and long-term growth. For executive directors, this can be summarised as follows:

Fixed remuneration	Policy for 2012/13	Delivery in 2012/13
Base Pay	Reviewed against: – salary levels in comparably sized companies and major retailers e.g. FTSE 25-75; – economic climate, market conditions and Company performance; – the level of pay awards in the rest of the business; and – the role and responsibility of the individual director.	– monthly in cash – reviewed annually with any increases normally awarded from 1 January
Benefits	– provided on a market-competitive basis – aligned to total reward structure for all employees	– salary supplement in lieu of membership of the Group Pension Scheme – life assurance cover – car or car cash allowance plus driver – all-employee share schemes (Save As You Earn) – employee product discount

Variable Remuneration	Policy for 2012/13	Delivery in 2012/13
Annual Bonus Scheme: with compulsory deferral into shares	– drive profitability and strategic change across the whole organisation – stretching targets required to achieve maximum payment – Group PBT with an individual performance element linked to delivery of key strategic objectives. – aligned to shareholder interests through annual financial performance as well as delivery of the overall business strategy	– bonus potential of up to 200% of salary for ‘maximum’ performance – 60% of bonus based on Group PBT targets – 40% of bonus based on individual objectives – compulsory deferral of 50% of bonus earned into shares – deferred shares vest after three years, subject to continued employment
Performance Share Plan	– primary long-term incentive – link individual reward with long-term performance of the Company – aligned to shareholder interests and specifically with the Company’s stated strategic objectives. – targets based on cumulative EPS (Earnings Per Share), ROCE (Return on Capital Employed), and Revenue growth across UK, International and Multi-channel business segments	– annual awards – plan provides for an individual awards of up to 300% of salary, although the Committee’s intention is that awards will conventionally be referenced to 250% of salary. – awards may vest after three years subject to achievement of performance targets – each element of performance will be assessed independently

Senior remuneration framework

How is the senior remuneration framework aligned to Company strategy?

The Committee carried out a full and comprehensive review of the senior remuneration framework in 2010/11 to ensure that it was aligned to the Company strategy. The Company must continue to be able to attract and retain leaders who are focused and encouraged to deliver the business priorities within a framework that continues to be aligned with the interests of the Company's shareholders, for example through bonus deferral and shareholding requirements. In addition, the Committee ensures that incentive plans are effective in not only delivering the required financial results, but:

- are fully aligned to the business strategy;
- drive behaviours that uphold the Company's high ethical standards; and
- adequately take account of risk.

In 2010/11, we actively engaged with shareholders as part of the consultation and continue to have dialogue with them on this and the broader remuneration debate.

When reviewing this framework in 2012, the Committee considered the incentive arrangements introduced in 2011 not only in the context of the business strategy but also against current external guidelines for executive remuneration. As a result of this review, the Committee agreed that the current framework was appropriate and did not require any changes.

In setting the remuneration for directors, the Committee has the discretion to take into account performance on environmental, social and governance matters. Having reviewed the performance targets for 2012/13, the Committee has decided that these should continue to be an integral part of individual objectives. All executive directors and senior managers have individual objectives aligned not only to the business strategy and operating plan but also to Plan A, the Company's environmental and ethical plan.

When reviewing executive directors' remuneration, the Committee considers a range of factors, including the remuneration policy and arrangements throughout the rest of the organisation. The remuneration framework for directors below Board level is fully aligned to that of executive directors, with the same long-term and short-term incentive arrangements (including performance measures), other than the size of awards and maximum potentials.

What is the expected value of proposed annual remuneration package for executive directors?

The following charts show the total remuneration package split between pay at risk and fixed pay for 'on-target' and 'maximum' performance:

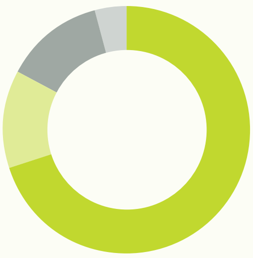
Marc Bolland

'On target' performance

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

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

'Maximum' performance



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

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

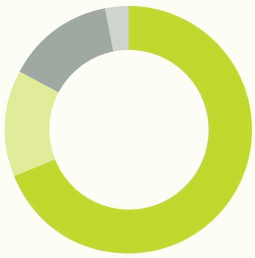
Other executive directors

'On target' performance

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

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

'Maximum' performance



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

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

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

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

Remuneration report continued

What are the details of fixed remuneration?

Executive directors

Salary

In reviewing executive director salary levels for 2012, the Committee considered current market conditions, the Company's performance in 2011/12 and the principles applying to decisions on general salary increases across the rest of the organisation (to ensure that the approach taken in determining any increase was consistent with the principles applied below the Board). Again, as per last year, Marc Bolland proposed not to receive any salary increase, which the Committee agreed. For other executive directors, the Committee agreed specific individual increases in the range of c.3%-4%, based on a number of factors including individual performance and external market data for the role. This approach is totally in line with the wider Company policy where individuals who achieved higher personal performance ratings were eligible to receive increases of 3% – 4%. Current annual salaries for 2012 for executive directors are shown in the Contract terms table on page 62.

Benefits

Where applicable, executive directors (other than the CEO) receive a 25% salary supplement in lieu of membership of the Group Pension Scheme (the CEO receives a salary supplement of 30%), with life assurance provided through a separate policy. Each executive director also receives a car or car cash allowance and is offered the benefit of a driver. The value of the benefits and allowances for each director is shown within the Directors' emoluments table on page 65. Employee product discount is also received but no specific value is placed on this all-employee benefit.

John Dixon was the only executive director who was a member of the Company's Defined Benefit Pension Scheme during the year, but chose to opt out of the scheme in February 2012. Until this date, he also received a 25% salary supplement on his non-pensionable salary. Full details of his pension benefits earned under the scheme for the year can be found on page 67.

Chairman

The fee for the Chairman reflects the level of commitment and responsibility of the role and is determined by the Remuneration Committee and other members of the Board. The fee is paid monthly in cash, inclusive of all committee roles and is not performance related nor pensionable. A review of existing fees in January 2012 concluded that £450,000 remained appropriate for the role and so no increase was awarded during the year. The Chairman is entitled to the use of a car and driver, provided by the Company. He may benefit from the employee product discount on the same terms as other employees.

Non-executive directors

The fees for non-executive directors are determined by the Chairman and executive directors. Fees are set at a level that ensures the Company can attract and retain individuals with the required skills, experience and knowledge so that the Board is able to effectively carry out its duties.

The fees recognise the responsibility of the role, the time commitments required and are not performance related nor pensionable. They are paid monthly in cash and there are no other benefits other than employee product discount on the same terms as other employees.

A full review of non-executive director fees was carried out in 2010 which resulted in a revision to the fee structure. This structure was again reviewed in January 2012 with the conclusion that the fees remained appropriate for the role. No changes were therefore made in 2011/12 to either the basic annual fee or that for the role of committee chairman or Senior Independent Director.

The current fee structure is as follows:

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

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

The annual fees for non-executive directors are shown in the Contract terms table on page 62 and the Directors' emoluments table on page 65 shows the fees paid during the year to each non-executive director.

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

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

Annual Bonus Scheme structure for 2012/13

The Annual Bonus Scheme is reviewed each year and is structured to drive individual performance and profitability across the whole organisation. The bonus potential for executive directors is up to 200% of salary for 'maximum' performance. For all senior managers there is a compulsory deferral into shares which vest after three years, subject to continued employment. For executive directors, this deferral into Company shares equates to 50% of their bonus. Further details of the Deferred Share Bonus Plan can be found in note 13 to the financial statements on page 92 of this Annual Report.

For 2012/13 the mix of performance measures remains unchanged. Underlying Group profit before tax (Group PBT) remains the primary performance measure, with 60% of the annual bonus being determined by performance against demanding profit targets set by the Committee at the start of the year. The balance of 40% will relate to performance against individual objectives independent of Group PBT.

The Committee believes that this approach provides an appropriate focus on annual profitability objectives while ensuring that directors continue to be focused on driving the changes in the business which underpin the Company's medium-term strategy.

Group PBT targets

As in previous years, the Group PBT targets have again been set taking into consideration the Company's own internal operating plan, external forecasts for the retail sector and analysts' profit forecasts. For the highest payment levels under this measure there will need to be very significant outperformance of the operating plan.

Individual objectives

The setting of quantifiable and challenging individual objectives and the associated performance targets are subject to rigorous annual review by the Committee at the time they are set for the year ahead, and at the end of the year when assessments of performance are undertaken.

The 2012/13 individual objectives will continue to be aligned to the Company's strategic plan and the specific workstreams that underpin it.

Each executive director will be assessed on the basis of targets set in relation to four clearly defined business objectives. Two of these will be 'collective', so that all directors are focused on these common goals, encouraging collaboration across the senior management group. Within these, each director will have specific actions/targets. Due to their importance, these two 'collective' objectives will remain as per last year, namely:

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

The remaining two individual objectives for 2012/13 will relate to specific workstreams relevant to each executive director's business area, or to key operating challenges. By way of illustration, these may include objectives that are focused on innovation and value, logistics and supply chain and brand recognition, in addition to those objectives that are aligned to building our multi-channel capabilities and becoming an international retailer.

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

In keeping with the principle that has applied for a number of years, no individual objective component of the bonus may be earned unless a threshold level of Group PBT has been achieved, subject to the Committee's overall assessment of the performance of the business during the period. Given the importance of the individual objectives to the long-term success of the business, the Group PBT threshold for this purpose is set below the entry point for the Group PBT performance target range. This is in line with the bonus policy for the rest of the organisation which maintains the important principle that below a defined level of performance, no bonus will be earned.

Performance Share Plan (PSP) structure for 2012/13

The Performance Share Plan will continue to be the primary long-term incentive for executive directors and senior managers in the Company. The maximum individual award opportunity is 300% of salary, although the Committee's intention continues to be that awards will be conventionally referenced to 250% of salary.

The Committee has again reviewed the performance measures for this plan and their alignment to the business strategy. The Committee concluded that the balanced score card of measures, including the weighting established last year, continue to be appropriate as set out in the table below.

For awards to be made in 2012/13, the Committee recalibrated the target ranges for ROCE and Revenue. For ROCE, the Committee reduced the bottom end of the target range to 15.0% (in line with the reduction in the Company's cost of capital since the 2011/12 awards were made) whilst maintaining the upper end of the target range at 18.0%, which represents a significant level of stretch. For Revenue, in line with the announced reallocation of capital expenditure and an ambition to drive faster International and Multi-channel growth, while continuing to protect the core UK market, the Committee increased the International and Multi-channel target ranges, with the overall Revenue target remaining unchanged.

Performance Share Plan Awards 2012/13

For awards made in 2012/13, the performance metrics and targets are as follows:

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

	% Vesting[1]	Cumulative EPS (p)	ROCE (%)	Revenue (FY15 – £m) UK[2]	Multi-channel[3]	International[4]
Weighting (% of total award)		50%	20%	10%	10%	10%
'Threshold' performance	20%	110p	15.0%	£8,900m	£800m	£1,300m
'Maximum' performance	100%	130p	18.5%	£9,600m	£1,000m	£1,700m

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

The above targets do not take into consideration the change in the Group's accounting treatment referred to in note 29 to the financial statements on page 106 as this event occurred after the reporting period.

Remuneration report continued

Executive Share Option Scheme: long-term incentive

The scheme was adopted at the 2005 AGM, but there is currently no intention to use the scheme on a regular basis. No grants have been awarded under the Executive Share Option Scheme for 2011/12. The Committee will continue to review the use of the scheme and retains the flexibility to grant awards under the scheme if appropriate.

All outstanding awards met their performance targets in previous years and are exercisable by participants. Individual executive directors have options granted in 2004 under the 2003 scheme as shown in the table on page 66.

All-Employee Share Schemes: long-term incentive

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

The scheme is subject to HMRC rules which limit the maximum monthly savings to £250. When the savings contract is started, options are granted to acquire the number of shares that the total savings will buy when the contract matures, at a discounted price set at the start of the scheme. Options cannot normally be exercised until a minimum of three years have elapsed.

The details of the options granted to executive directors are shown in the table on page 66.

What were the outcomes in 2011/12 for the short-term and long-term incentive schemes?

Annual Bonus Scheme outcome for 2011/12

In 2011/12, 60% of the executive directors' bonus was based on Group PBT performance with the remaining 40% based on the achievement of individual objectives, independent of Group PBT (and subject to achieving the 'threshold' Group PBT target).

Summary of Objectives (total)

2011/12	Marc Bolland	Kate Bostock	John Dixon	Steven Sharp	Alan Stewart	Laura Wade-Gery
Financial Measure	Group PBT	Group PBT	Group PBT	Group PBT	Group PBT	Group PBT
Collective Objectives	Total UK operating costs	Total UK operating costs GM operating costs	Total UK operating costs Food operating costs	Total UK operating costs New store environment project costs	Total UK operating costs Finance, IT & Logistics operating costs	Total UK operating costs E-Commerce operating costs
	Individual Plan A objectives	Individual Plan A objectives	Individual Plan A objectives	Individual Plan A objectives	Individual Plan A objectives	Individual Plan A objectives
Examples of achievement against business area targets	– Developed multi-channel capability (organisation, new platform and international websites) – Developed an international organisation (people, process structure)	– Relaunched GM sub-brands and drive GM market share – Segmented Home into lifestyle categories	– Improved in-store availability and drive innovation across new and existing ranges – Provided greater customer choice	– Developed sub-brand identities and delivered communication plans – Delivered a more inspiring shopping environment and customer experience	– Lead strategic review of GM logistics and merchandise planning systems – Improved organisational alignment and accountability with new management reporting system	– Delivered key milestones towards our new multi-channel platform – Through innovation, provided our customers with greater access to our products

Group PBT objective (60% of total)

As in previous years, Group PBT targets were set by the Committee at the start of the year by reference to the Company's own internal operating plan, external forecasts for the retail sector and analysts' profit forecasts. For there to be any payment under the Group PBT measure in 2011/12, there was a requirement not only for year-on-year Group PBT growth but also outperformance of the operating plan. The underlying Group PBT performance of £705.9m did not meet the 'minimum' target, resulting in no bonus payment under the Group PBT element.

Individual objectives (40% of total)

Each executive director had four individual objectives for 2011/12 which directly referenced the long-term strategy of the business, each accounting for 10% of the total bonus.

'Collective' individual objectives (20% of total)

Of the individual objectives, two were 'collective' i.e. individual targets for each director under shared objectives, so that all directors focused on common goals, encouraging collaboration across the senior management team.

The performance of each of the directors has been reviewed by the Committee against the quantifiable individual performance targets which were established and agreed at the start of the year.

- Delivery against UK operating plan cost targets:

  As set out on page 35, overall performance in this area was strong, with operating plan cost increases within the range of internal projections. Based on the Committee's assessment of performance against the individual targets under this objective, payouts to directors were in the range 8% – 10% of maximum bonus opportunity, equating to 16% – 20% of salary.
- Progression in implementing Plan A commitments:

  As discussed on page 30, the Company has continued to make good progress against our Plan A goal of becoming the world's most sustainable major retailer. Based on the Committee's assessment of performance against the individual targets under this objective, payouts to directors were in the range 5% – 10% of maximum bonus opportunity, equating to 10% – 20% of salary.

Business area individual objectives (20% of total)

The remaining two objectives related to specific workstreams relevant to the director's business area for which they have primary responsibility. Performance against these objectives was reviewed by the Committee against quantifiable individual performance metrics that were established for each director at the start of the year. Based on the performance against these targets, the Committee determined payouts to directors in the range 7.5% – 16.5% of maximum bonus opportunity, equating to 15% – 33% of salary. The Committee believes that this level of payout suitably reflects the significant achievement during the year towards the execution of the Company's key strategic long-term goals.

Summary of bonus earned for 2011/12

As outlined in last year's report, and in keeping with the principle that has applied for a number of years, no individual objective component of the bonus would have been payable unless a 'threshold' level of Group PBT was achieved. Given the importance of the individual objectives to the success of the business, the Group PBT 'threshold' for this purpose was set below the entry point for the Group PBT performance target range and was achieved. In addition, the Committee also considered the overall performance of the business during the year across a series of measures and believes that the bonus payments made for the achievement of objectives are appropriate in light of this performance in the context of a challenging year for our business and the wider retail sector. This approach was applied to the rest of the organisation, allowing for employees to receive a bonus.

The table below summarises the bonus payments for each director for 2011/12:

Summary of bonus earned for 2011/12

	Group PBT target	'Collective' objectives	Business area objectives	Total bonus earned	
		% of salary		% of salary	£000
Maximum bonus potential	120%	40%	40%	**200%**	**–**
Actual bonus earned					
Marc Bolland	0%	35%	33%	**68%**	**663**
Kate Bostock	0%	39%	15%	**54%**	**328**
John Dixon	0%	40%	32%	**72%**	**405**
Steven Sharp	0%	36%	24%	**60%**	**405**
Alan Stewart	0%	36%	25%	**61%**	**346**
Laura Wade-Gery[1]	0%	30%	30%	**60%**	**243**

1) Total bonus earned based on nine months worked in 2011/12.

Remuneration report continued

Performance Share Plan outcome for 2011/12

2009 Award Final Measurement

The underlying basic EPS figure for 2011/12 was 34.9p which was above the 'threshold' target of RPI+3% but below 'maximum' performance, resulting in 34.95% vesting for awards up to 200% of salary and 28.97% vesting for awards between 200% and 400% of salary.

The targets for all outstanding awards are shown in the tables below:

2009 and 2010 Awards

Award		Average annual EPS growth in excess of inflation (RPI) 20% vesting[1]	100% vesting[1]	EPS for start of scheme
2009	(for awards up to 200% of salary)	3%	6%	28.0p
	(for awards between 200% and 400% of salary)	3%	8%	28.0p
2010	(for awards up to 200% of salary)	3%	9%	30.0p[1]
	(for awards between 200% and 400% of salary)	4%	12%	30.0p[1]

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

2011 Award

	% vesting[1]	Cumulative EPS (p)	ROCE (%)	Revenue (FY14 – £m) UK[2]	Multi-channel[3]	International[4]
Weighting (% of total award)		50%	20%	10%	10%	10%
'Threshold' performance	20%	110p	17.0%	£9,200m	£700m	£1,100m
'Maximum' performance	100%	130p	18.5%	£9,900m	£1,000m	£1,400m

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

Board appointments and contracts

Contract terms and current annual salaries/fees for all current members of the Board

	Date of appointment	Notice period/ unexpired term	Basic salary/fee £000	Committee chair fee £000	**Current annual salary/fee £000**	Annual salary/fee 2011 £000	Change[1] £000
Chairman							
Robert Swannell	23/08/2010	6 mths / 6 mths	450	–	**450**	450	–
Chief Executive Officer							
Marc Bolland	01/05/2010	12 mths / 6 mths	975	–	**975**	975	–
Executive directors							
Kate Bostock	10/03/2008	12 mths / 6 mths	608	–	**608**	590	18
John Dixon	09/09/2009	12 mths / 6 mths	562	–	**562**	540	22
Steven Sharp	08/11/2005	12 mths / 6 mths	675	–	**675**	655	20
Alan Stewart	28/10/2010	12 mths / 6 mths	567	–	**567**	550	17
Laura Wade-Gery	04/07/2011	12 mths / 6 mths	541	–	**541**	–	–
Non-executive directors							
Vindi Banga	01/09/2011	3 mths / 3 mths	70	–	**70**	–	–
Miranda Curtis	01/02/2012	3 mths / 3 mths	70	–	**70**	–	–
Jeremy Darroch	01/02/2006	3 mths / 3 mths	70	15	**85**	85	–
Martha Lane Fox	01/06/2007	3 mths / 3 mths	70	–	**70**	70	–
Steven Holliday	15/07/2004	3 mths / 3 mths	70	15	**85**	85	–
Jan du Plessis	01/11/2008	3 mths / 3 mths	100	–	**100**	70	30

1) All changes to salaries and fees were effective 1 January 2012 except that for Jan du Plessis, which was effective from 1 March 2012 when he became Senior Independent Director. Laura Wade-Gery was appointed on a salary of £525,000 and received an increase of £16,000 on 1 January 2012.

What are the current service contracts and terms of employment for directors?

Executive directors

All executive directors and senior managers have service contracts that can be terminated by the Company giving 12 months' notice and by the employee giving six months' notice.

The Company retains the right to terminate the contract of any executive director summarily, in accordance with the terms of their service agreement, on payment of a sum equal to the contractual notice entitlement of 12 months' salary and specified benefits. In line with best practice, for all current executive directors the Company reserves the right on termination to make phased payments which are paid in monthly instalments and subject to mitigation. Entitlement to participate in share schemes ceases on termination.

Chairman

Robert Swannell has an agreement for service which requires six months' notice by either party.

Non-executive directors

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

What were the changes to the Board during the year?

Directors appointed to the Board
Laura Wade-Gery

Laura Wade-Gery was appointed Director, Multi-channel E-commerce on 4 July 2011. Her remuneration package is consistent with the structure for executive directors outlined in this report, and the full terms of her package, including awards made to facilitate her appointment were disclosed in last year's report.

Vindi Banga and Miranda Curtis

Vindi Banga and Miranda Curtis joined the Board of Marks and Spencer Group plc as non-executive directors on 1 September 2011 and 1 February 2012 respectively. They both receive a basic annual fee of £70,000 in line with the structure set out on page 58.

Jan du Plessis

Following Sir David Michels retirement from the Board, Jan du Plessis was appointed Senior Independent Director on 1 March 2012. As a result of this appointment his annual fee increased from £70,000 to £100,000 in line with the structure set out on page 58.

Directors retiring from the Board
Sir David Michels and Louise Patten

Sir David Michels, Deputy Chairman and Senior Independent Director, retired from the Board on 29 February 2012 following his second three-year term.

Louise Patten served as a non-executive director from 2006 until 13 July 2011, when she retired from the Board.

What are the executive directors' external board appointments?

The Company recognises that executive directors may be invited to become non-executive directors of other companies and that these appointments can broaden their knowledge and experience to the benefit of M&S. The individual director retains the fee, the details of which are shown below for this financial year:

	Company	Fee £000
Marc Bolland[1]	Manpower inc	**117**
Steven Sharp	Adnams plc	**28**
Laura Wade-Gery[2]	Trinity Mirror plc	**30**

1) Marc Bolland's fee is paid in cash and stock units and in US dollars. For purposes of this table the values were converted to Sterling using the £:$ spot rate as at 30 March 2012 for stock units and the average rolling £:$ rate during the year for cash payments.
2) Laura Wade-Gery stepped down from the Board of Trinity Mirror plc on 10 May 2012.

Directors' interests

What are the directors' interests in the Company?

The beneficial interests of the directors and connected persons in the shares of the Company are shown below. Options granted under the Company share schemes are shown in Part 2 of this report. Further information regarding employee share option schemes is given in note 13 to the financial statements on page 92 of the Annual Report.

There have been no changes in the directors' interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and 23 May 2012. No director had an interest in any of the Company's subsidiaries at the beginning or end of the year.

	Ordinary shares as at 3 April 2011 (or at date of appointment)	Ordinary shares as at 31 March 2012
Robert Swannell	70,000	**100,000**
Marc Bolland	147,430	**147,430**
Kate Bostock	182,514	**187,243**
John Dixon	102,529	**156,295**
Steven Sharp	387,808	**397,044**
Alan Stewart	10,000	**10,000**
Laura Wade-Gery	–	**55,055**
Miranda Curtis	–	**5,500**
Vindi Banga	–	**2,000**
Jeremy Darroch	2,000	**2,000**
Martha Lane Fox	20,100	**20,100**
Steven Holliday	2,500	**2,500**
Jan du Plessis	20,000	**20,000**

Remuneration report continued

What is the shareholding policy for executive directors?

All executive directors are required to hold shares equivalent in value to a minimum percentage of their salary (200% for the CEO and 100% for all other executive directors) within a five-year period from the date of their appointment. The relevant salary is at date of appointment and the share market value is measured at the current date. Shares included in this measure are the directors' interest in the Company plus the net value of any unexercised awards under the Deferred Share Bonus Plan and Restricted Share Plan.

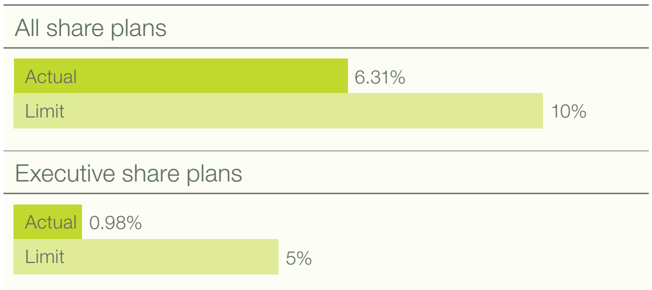
As at 31 March 2012, the measurement for each director was as follows:

	Time from date of appointment	% of salary	
		Target	Actual
Marc Bolland	1 year / 11 months	200%	**142%**
Kate Bostock	4 years / 1 month	100%	**267%**
John Dixon	2 years / 7 months	100%	**235%**
Steven Sharp	6 years / 5 months	100%	**523%**
Alan Stewart	1 year / 5 months	100%	**46%**
Laura Wade-Gery	– / 9 months	100%	**152%**

Dilution limits

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

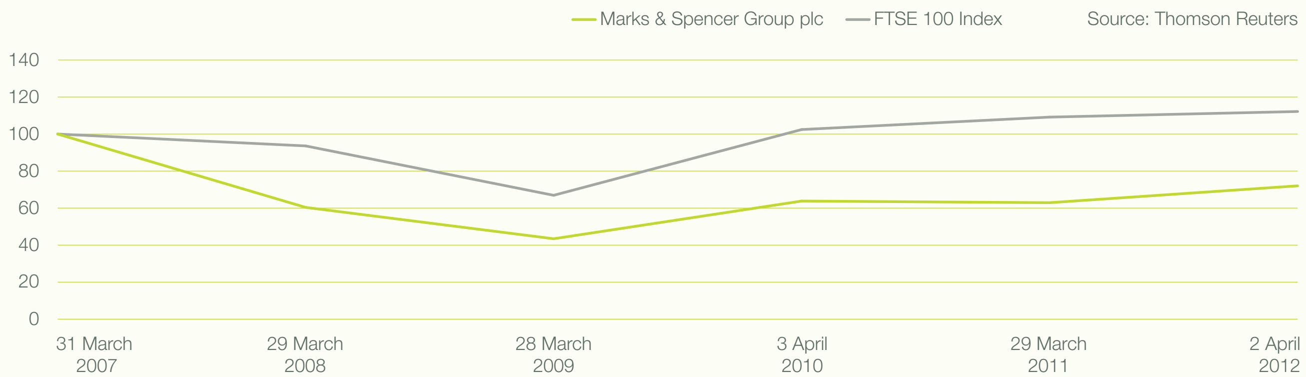
Awards granted under the Company's Save As You Earn scheme and the Executive Share Option scheme are met by the issue of new shares when the options are exercised. All other share plans are met by market purchase. The Company monitors the number of shares issued under these schemes and their impact on dilution limits. The Company's usage of shares compared to the relevant dilution limits set by the Association of British Insurers (ABI) in respect of all share plans (10% in any rolling ten year period) and executive share plans (5% in any rolling ten year period) as at 31 March 2012 was as follows:



Total shareholder return

Performance graph

The graph illustrates the performance of the Company against the FTSE 100 over the past five years. The FTSE 100 has been chosen as it is a recognised broad equity market index of which the Company has been a member throughout the period.



Part 2: audited information

Directors' emoluments

	Salary/fee[1] £000	Cash allowance[2] £000	Compensatory awards[3] £000	Benefits[4] £000	Dividend equivalents £000	Bonus[5] £000	**Total 2012 £000**	Total 2011 £000
Chairman								
Robert Swannell	450	–	–	1	–	–	**451**	128
Chief Executive Officer								
Marc Bolland	975	297	–	40	38	332	**1,682**	4,382
Executive directors								
Kate Bostock	595	166	–	19	–	164	**944**	1,017
John Dixon	546	82	–	7	54	202	**891**	833
Steven Sharp	660	166	–	36	–	203	**1,065**	1,138
Alan Stewart	554	139	–	32	7	173	**905**	412
Laura Wade-Gery	396	111	741	7	–	122	**1,377**	–
Non-executive directors								
Vindi Banga	41	–	–	–	–	–	**41**	–
Miranda Curtis	12	–	–	–	–	–	**12**	–
Jeremy Darroch	85	–	–	–	–	–	**85**	76
Martha Lane Fox	70	–	–	–	–	–	**70**	68
Steven Holliday	85	–	–	–	–	–	**85**	81
Jan du Plessis	73	–	–	–	–	–	**73**	68
Directors retiring from the board during the year								
Sir David Michels	92	–	–	–	–	–	**92**	209
Louise Patten	23	–	–	–	–	–	**23**	68
Total	**4,657**	**961**	**741**	**142**	**99**	**1,196**	**7,796**	**8,480**

1) Executive director salary increases, where applicable, were effective from 1 January 2012 as set out on page 58 and in the Contracts table on page 62.
2) The elements shown in the Cash allowance column of the table include pension supplement and car allowance, as applicable to each director and are described on page 58.
3) The Compensatory awards for Laura Wade-Gery include £335,000 in cash and £406,000 in shares for bonus and share awards that would have vested in 2011 had she remained with her previous employer (as detailed in last year's report).
4) The elements shown in the Benefits column of the table include car, life assurance and driver, as applicable to each director and are described on page 58.
5) For executive directors, 50% of the total bonus earned (shown on page 62) is paid in cash as shown in the table above. The remaining 50% is deferred into shares which will be granted in June 2012. Laura Wade-Gery's bonus is based on nine months worked in 2011/12.

Remuneration report continued

Directors' interests in long-term incentive schemes

	Date of grant	Maximum options receivable at 3 April 2011 or date of appointment	Options granted during the year	Options exercised during the year	Options lapsed during the year	Maximum options receivable at 31 March 2012	Option price (p)	Share price on date of award (p)	Share price on date of exercise (p)	Option period
Chief Executive Officer										
Marc Bolland										
Performance Share Plan[1]	09/06/10	1,143,024	–	–	–	**1,143,024**	0.0	341.2	–	09/06/12 – 08/06/20
	09/06/10	1,143,024	–	–	–	**1,143,024**	0.0	341.2	–	09/06/13 – 08/06/20
	25/07/11	–	687,200	–	–	**687,200**	0.0	354.7	–	25/07/14 – 24/07/21
Deferred Share Bonus Plan	09/06/11	–	162,263	–	–	**162,263**	0.0	378.4	–	09/06/14 – 08/06/21
Restricted Share Plan[2]	09/06/10	146,541	–	–	–	**146,541**	0.0	341.2	–	05/12/11 – 08/06/20
	09/06/10	146,542	–	–	–	**146,542**	0.0	341.2	–	08/06/12 – 08/06/20
SAYE	25/11/10	2,821	–	–	–	**2,821**	319.0	397.6	–	01/01/14 – 30/06/14
Total		**2,581,952**	**849,463**	**–**	**–**	**3,431,415**				
Executive directors										
Kate Bostock										
Performance Share Plan[1]	09/06/08	262,054	–	–	262,054	**–**	0.0	381.6		
	09/06/09	349,528	–	–	–	**349,528**	0.0	286.1	–	09/06/12 – 08/06/19
	09/06/10	337,045	–	–	–	**337,045**	0.0	341.2	–	09/06/13 – 08/06/20
	25/07/11	–	415,844	–	–	**415,844**	0.0	354.7	–	25/07/14 – 24/07/21
Deferred Share Bonus Plan	09/06/10	242,672	–	–	–	**242,672**	0.0	341.2	–	09/06/13 – 08/06/20
	09/06/11	–	102,439	–	–	**102,439**	0.0	378.4	–	09/06/14 – 08/06/21
Executive Share Option Scheme	24/11/04	249,627	–	–	–	**249,627**	336.5	336.5	–	24/11/07 – 23/11/14
SAYE	21/11/08	4,729	–	4,729	–	**–**	203.0	252.6	333.6	
Total		**1,445,655**	**518,283**	**4,729**	**262,054**	**1,697,155**				
John Dixon										
Performance Share Plan[1]	09/06/08	144,129	–	–	144,129	**–**	0.0	381.6		
	09/06/09	314,575	–	–	–	**314,575**	0.0	286.1	–	09/06/12 – 08/06/19
	24/11/09	26,178	–	–	–	**26,178**	0.0	382.0	–	24/11/12 – 23/11/19
	09/06/10	300,410	–	–	–	**300,410**	0.0	341.2	–	09/06/13 – 08/06/20
	25/07/11	–	380,603	–	–	**380,603**	0.0	354.7	–	25/07/14 – 24/07/21
Deferred Share Bonus Plan	09/06/08	10,809	–	10,809	–	**–**	0.0	381.6	315.0	
	09/06/10	223,054	–	–	–	**223,054**	0.0	341.2	–	09/06/13 – 08/06/20
	09/06/11	–	98,039	–	–	**98,039**	0.0	378.4	–	09/06/14 – 08/06/21
Restricted Share Plan[3]	09/06/08	86,477	–	86,477	–	**–**	0.0	381.6	315.0	
Executive Share Option Scheme	20/07/04	25,935	–	–	–	**25,935**	347.0	347.0	–	20/07/07 – 19/07/14
SAYE	21/11/08	8,251	–	–	–	**8,251**	203.0	252.6	–	01/01/14 – 30/06/14
Total		**1,139,818**	**478,642**	**97,286**	**144,129**	**1,377,405**				
Steven Sharp										
Performance Share Plan[1]	09/06/08	592,243	–	–	592,243	**–**	0.0	381.6		
	09/06/09	394,966	–	–	–	**394,966**	0.0	286.1	–	09/06/12 – 08/06/19
	09/06/10	375,146	–	–	–	**375,146**	0.0	341.2	–	09/06/13 – 08/06/20
	25/07/11	–	461,657	–	–	**461,657**	0.0	354.7	–	25/07/14 – 24/07/21
Deferred Share Bonus Plan	09/06/10	267,291	–	–	–	**267,291**	0.0	341.2	–	09/06/13 – 08/06/20
	09/06/11	–	113,724	–	–	**113,724**	0.0	378.4	–	09/06/14 – 08/06/21
Executive Share Option Scheme	20/07/04	302,593	–	–	–	**302,593**	347.0	347.0	–	20/07/07 – 19/07/14
	24/11/04	104,010	–	–	–	**104,010**	336.5	336.5	–	24/11/07 – 23/11/14
SAYE	21/11/08	4,729	–	4,729	–	**–**	203.0	252.6	350.4	
	24/11/11	–	3,488	–	–	**3,488**	258.0	322.4	–	01/01/15 – 30/06/15
Total		**2,040,978**	**578,869**	**4,729**	**592,243**	**2,022,875**				

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

	Date of grant	Maximum options receivable at 3 April 2011 or date of appointment	Options granted during the year	Options exercised during the year	Options lapsed during the year[3]	**Maximum options receivable at 31 March 2012**	Option price (p)	Share price on date of award (p)	Share price on date of exercise (p)	Option period
Alan Stewart										
Performance Share Plan	24/11/10	144,432	–	–	–	**144,432**	0.0	380.8	–	24/11/13 – 23/11/20
	25/07/11	–	387,651	–	–	**387,651**	0.0	354.7	–	25/07/14 – 24/07/21
Deferred Share Bonus Plan	09/06/11	–	39,789	–	–	**39,789**	0.0	378.4	–	09/06/14 – 08/06/21
Restricted Share Plan[2]	24/11/10	39,390	–	–	–	**39,390**	0.0	380.8	–	24/11/11 – 23/11/20
	24/11/10	39,391	–	–	–	**39,391**	0.0	380.8	–	23/11/12 – 23/11/20
SAYE	24/11/11	–	3,488	–	–	**3,488**	258.0	322.4	–	01/01/15 – 30/06/15
Total		**223,213**	**430,928**	**–**	**–**	**654,141**				
Laura Wade-Gery										
Performance Share Plan	25/07/11	–	444,037	–	–	**444,037**	0.0	354.7	–	25/07/14 – 24/07/21
Restricted Share Plan[2]	25/07/11	–	119,751	–	–	**119,751**	0.0	354.7	–	25/07/12 – 24/07/21
	25/07/11	–	126,225	–	–	**126,225**	0.0	354.7	–	25/07/13 – 24/07/21
	25/07/11	–	77,677	–	–	**77,677**	0.0	354.7	–	25/07/14 – 24/07/21
Total		**–**	**767,690**	**–**	**–**	**767,690**				

1) The 2008 Performance Share Plan Award did not meet the minimum EPS target of RPI +3% and so all awards lapsed on 9 June 2011. For awards due to vest on 9 June 2012, vesting will be as follows: awards up to 200% of salary, vesting will be 34.95%; awards between 200% and 400% of salary, vesting will be 28.97%. The explanation of the performance criteria attached to the Performance Share Plan is set out on page 62 and has been audited.
2) These awards were made in connection with the directors' appointment to compensate them for incentive awards that were forfeited on cessation from their previous employer.
3) John Dixon was awarded these Restricted Share Plan options before he was appointed executive director.

The market price of the shares at the end of the financial year was 379.0p; the highest and lowest share price during the financial year were 402.2p and 301.8p respectively.

Directors' pension information

a) Pension benefits

John Dixon is the only executive director who was a member of the Company's Defined Benefit Pension Scheme during 2011/12. He opted out of the scheme on 1 February 2012. Details of the pension earned by him during the year ending 31 March 2012 are shown below:

Name	Age as at 31 March 2012	Accrued pension entitlement at 2 April 2011 £000	**Accrued pension entitlement at 31 March 2012 £000**	Additional pension earned during the period £000	Additional pension earned during the period above inflation £000	Transfer value of accrued pension at 2 April 2011 £000	**Transfer value of accrued pension at 31 March 2012 £000**	Increase in transfer value during the period £000	Increase in transfer value during the period above inflation £000
John Dixon	44	126	**130**	4	2	1,417	**1,830**	413	23

The accrued pension entitlement is the deferred pension amount that the director would receive at age 60 if he left the Company on 31 March 2012. The Listing Rules require this to be disclosed excluding inflation.

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

b) Payments to former directors

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

Unfunded pensions	**2012 £000**	2011 £000
Clinton Silver	**114**	111

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

Approved by the Board
Steven Holliday, Chairman of the Remuneration Committee
London
21 May 2012

Other disclosures

Principal activities and Business review

Marks and Spencer Group plc (the 'Company') is the holding company of the Marks & Spencer Group of companies (the 'Group'). Marks & Spencer is the UK's largest clothing retailer with 731 stores across the country. We sell high-quality, great value food, homeware and clothing and are the UK market leaders in womenswear, lingerie and menswear. However our customers shop with us – in stores, online or by phone – we aim to provide the best and most convenient shopping experience from purchase through to delivery. With 387 stores in 43 territories across Europe, the Middle East and Asia, we are growing our international presence to make the M&S brand more accessible to customers around the world.

The Companies Act 2006 requires the Company to set out in this report a fair review of the business of the Group during the financial year ended 31 March 2012 including an analysis of the position of the Group at the end of the financial year, and a description of the principal risks and uncertainties facing the Group (known as a 'Business review').

The information that fulfils the Business review requirements are incorporated by reference and can be found in the following sections:

- Chairman's statement on pages 2 and 3
- Overview on pages 2 to 7
- Strategic review on pages 8 to 33
- Principal risks and uncertainties on pages 45 to 47
- Financial risk management on pages 97 to 102
- Social, environmental and ethical matters on pages 30 to 31.

More information is given in the How We Do Business report available on our website at marksandspencer.com/hwdbreport2012

Pages 1 to 72 inclusive (together with the sections of the Annual Report incorporated by reference) consist of a Directors' report that has been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

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

Profit and dividends

The profit for the financial year, after taxation, amounts to £513.1m (last year £612.0m). The directors have declared dividends as follows:

Ordinary shares	£m
Paid interim dividend of 6.2p per share (last year 6.2p per share)	97.6
Proposed final dividend of 10.8p per share (last year 10.8p per share)	172.3
Total ordinary dividend of 17.0p per share (last year 17.0p per share)	269.9

The final ordinary dividend will be paid on 13 July 2012 to shareholders whose names are on the Register of Members at the close of business on 1 June 2012.

Share capital

The Company's issued ordinary share capital as at 31 March 2012 comprised a single class of ordinary share. Details of movements in the issued share capital can be found in note 24 to the financial statements. Each share carries the right to one vote at general meetings of the Company. During the period, 20,643,220 ordinary shares in the Company were issued as follows:

- 1,297,912 shares under the terms of the 2002 Executive Share Option Scheme at prices between 256p and 352p.
- 19,345,308 shares under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 203p and 559p.

Restrictions on transfer of securities

There are no specific restrictions on the transfer of securities in the Company, which is governed by the Articles and prevailing legislation. Nor is the Company aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

Variation of rights

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

Rights and obligations attaching to shares

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

Powers for the Company issuing or buying back its own shares

The Company was authorised by shareholders, at the 2011 AGM, to purchase in the market up to 10% of the Company's issued share capital, as permitted under the Company's Articles. No shares have been bought back under this authority during the year ended 31 March 2012. This standard authority is renewable annually; the directors will seek to renew this authority at the 2012 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 2011 AGM to allot relevant securities up to a nominal amount of £132,079,033. That authority will apply until the conclusion of the 2012 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 £133,890,820, and (ii) comprising equity securities up to a nominal amount of £267,781,640 (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 2013 or, if earlier, on 30 September 2013.

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 £20,083,623. 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 160m ordinary shares and sets the minimum and maximum prices which will be paid.

Interests in voting rights

Information provided to the Company pursuant to the Financial Services Authority's (FSA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 31 March 2012, the following information has been received, in accordance with DTR5, from holders of notifiable interests in the Company's issued share capital.

	Ordinary shares	% of capital	Nature of holding
BlackRock	79,693,916	5.03%	Indirect (4.51%) & CFD (0.52%)
Capital Research & Management	77,589,854	4.85%	Indirect interest
AXA S.A.	76,111,596	4.81%	Direct & Indirect
Brandes Investment Partners, L.P.	74,959,501	4.73%	Indirect interest
Legal & General Group plc	63,188,326	3.99%	Direct interest
The Wellcome Trust	47,464,282	3.01%	Direct interest

No changes have been disclosed in accordance with DTR5 in the period 31 March 2012 to 21 May 2012.

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 than 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 £267m Medium Term Notes issued by the Company on 28 March 2007, £400m Medium Term Notes issued by the Company on 30 November 2009 and the £300m Medium Term Notes issued by the company on the 6 December 2011 to various institutions ('MTN') and under the Group's £3bn Euro Medium Term Note (EMTN) programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN;
– the £250m puttable callable reset notes issued by the Company to various institutions on 11 December 2007 under the Group's £3bn EMTN programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN;
– the $500m US Notes issued by the Company to various institutions on 6 December 2007 under section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note;
– the $300m US Notes issued by the Company to various institutions on 6 December 2007 under section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note;
– the £1.325bn Credit Agreement dated 29 September 2011 between the Company and various banks contains a provision such that, upon a change of control event, unless new terms are agreed within 60 days, the facility under this agreement will be cancelled with all outstanding amounts becoming immediately payable with interest;
– the amended and restated Relationship Agreement dated 1 February 2012 (originally dated 9 November 2004 as amended on 1 March 2005), between HSBC and the Company and relating to M&S Money, 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 Money continue and HSBC gains certain limited additional rights in respect of existing customers of the new controller of the Company. Where a third-party arrangement is in place for the supply of financial services products to existing customers of the new controller, the Company is required to procure the termination of such arrangement as soon as reasonably practicable (whilst not being required to do anything that would breach any contract in place in respect of such arrangement). Where a third-party arrangement is so terminated, or does not exist, HSBC gains certain exclusivity rights in respect of the sale of financial services products to the existing customers of the new controller. Where the Company undertakes a re-branding exercise with the new controller following a change of control (which includes using any M&S brand in respect of the new controller's business or vice versa), HSBC gains certain termination rights (exercisable at its election) in respect of the Relationship Agreement;
– the agreement between Marks and Spencer plc and Marks and Spencer Pension Trust Limited (as trustee of The Marks and Spencer Pension Scheme) (the 'Pension Fund') dated 12 May 2010 relating to Marks and Spencer Scottish Limited Partnership (the 'Partnership') contains a clause such that, upon a change of control of the Company, Marks and Spencer plc shall elect that the Partnership either (i) surrenders its discretion over the payment of annual distributions to the Pension Fund; or (ii) increases the rate at which compensatory interest accrues on any annual payments by the Partnership that Marks and Spencer plc has elected (as general partner of the Partnership) to defer;
– the Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

Board of directors

The membership of the Board and biographical details of the directors are given on page 40 and 41 and are incorporated into this report by reference. Details of directors' beneficial and non-beneficial interests in the shares of the Company are shown on page 63. Options granted under the Save As You Earn (SAYE) Share Option and Executive Share Option Schemes are shown on pages 66 to 67. Further information regarding employee share option schemes is given in note 13 to the financial statements.

Laura Wade-Gery joined the Board on 4 July 2011 as Executive Director, Multi-channel E-commerce, Louise Patten did not seek re-election at the 2011 AGM and stepped down from the Board as a non-executive director on 13 July 2011, Vindi Banga was appointed to the Board as a non-executive director on 1 September 2011. Miranda Curtis joined the Board as a

Other Disclosures continued

non-executive director on 1 February 2012. Sir David Michels stepped down from the Board as Deputy Chairman and Senior Independent Director, following the end of his second three-year term on 29 February 2012. Jan du Plessis was appointed Senior Independent Director on 1 March 2012. In line with industry best practice, all directors will stand for election at the 2012 AGM.

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

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

Appointment and retirement of directors

The directors may from time to time appoint one or more directors. The Board may appoint any person to be a director (so long as the total number of directors does not exceed the limit prescribed in the Articles). Under the Articles any such director shall hold office only until the next AGM and shall then be eligible for election. The Articles also require that at each AGM at least one-third of the current directors must retire as directors by rotation. All those directors who have been in office at the time of the two previous AGMs and who did not retire at either of them must retire as directors by rotation. In addition, a director may at any AGM retire from office and stand for re-election. However, in line with the UK Corporate Governance Code 2010, all directors will stand for annual election at the 2012 AGM.

Directors' conflicts of interest

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

Directors' indemnities

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors. The Company has also granted indemnities to each of its directors and the Group Secretary to the extent permitted by law. Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 31 March 2012 and remain in force, in relation to certain losses and liabilities which the directors (or Group Secretary) may incur to third parties in the course of acting as directors or Group Secretary or employees of the Company, or of any associated company.

Employee involvement

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

The seventeenth meeting of the European Works Council ('EWC') (established in 1995) will take place in July 2012. This Council provides an additional forum for informing, consulting and involving employee representatives from the countries in the European Community. The EWC includes members from our partly owned companies established in the Czech Republic and Greece, as well as representatives from the Republic of Ireland and the UK. The EWC will have the opportunity to be addressed by the Chief Executive and other senior members of the Company on issues that affect the European business. This will include the directors of International and Multi-channel, and the director of Plan A, which all have an impact across the European Community.

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

Share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. In particular, around 25,000 employees currently participate in Sharesave, the Company's all employee Save As you Earn Scheme. Full details of all schemes are given on pages 59 to 60.

We have a well established interactive wellbeing website, called planahealth.com, a completely bespoke website and service designed exclusively for M&S employees. It gives any employee the opportunity to access a wealth of information, help and support. We cover all areas of wellbeing, from healthy eating and exercise to help in overcoming issues such as stress, financial challenges, achieving a positive work-life balance and problems with sleeping.

The response since its launch in May 2010 has been excellent with 11,500 employees making personal pledges to improve a specific health or wellbeing issue. Employees are able to interact with one another, post information about clubs and groups in their area and can gain access to information about corporate projects which link to their personal health pledges. We have already received hundreds of testimonials from employees telling us that they are enjoying the programme, feel better as a result and enjoy its social/community-based style.

We maintain contact with retired staff through communications from the Company and the Pension Trust. Member-nominated trustees have been elected to the Pension Trust Board, including employees and pensioners. We continue to produce a regular Pensions Update newsletter for members of our final salary pension scheme and the M&S Retirement Plan.

Equal opportunities

The Group is committed to an active equal opportunities policy from recruitment and selection, through training and development, performance reviews and promotion to retirement. It is our policy to promote an environment free from discrimination, harassment and victimisation, where everyone will receive equal treatment regardless of gender, colour, ethnic or national origin, disability, age, marital status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit. The Company is responsive to the needs of its employees, customers and the community at large. We are an organisation which uses everyone's talents and abilities and where diversity is valued. We were one of the first major companies to remove the default retirement age in 2001 and have continued to see an increase in employees wanting to work past the state retirement age. Our oldest employee is 85 years old and joined the business at age 80. The Company once again featured in The Times Top 50 places for Women to work in April 2012 and consider this highlights how equal opportunities are available for all.

Employees with disabilities

It is our policy that people with disabilities should have full and fair consideration for all vacancies. During the year, we continued to demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria, and endeavour to retain employees in the workforce if they become disabled during employment. We will actively retrain and adjust their environment where possible to allow them to maximise their potential. We continue to work with external organisations to provide workplace opportunities through our innovative Marks & Start scheme and by working closely with JobCentrePlus.

Essential contracts or arrangements

The Company is required to disclose any contractual or other arrangements which it considers are essential to its business. We have a wide range of suppliers for the production and distribution of products to our customers. Whilst the loss of, or disruption to, certain of these arrangements could temporarily affect the operations of the Group, none are considered to be essential, with the exception of certain warehouse operators and the provider of the Company's E-commerce platform.

Groceries Supply Code of Practice

The Groceries (Supply Chain Practices) Market Investigation Order 2009 ("Order") and The Groceries Supply Code of Practice ("GSCOP") has been in force since February 2010.

The Company operates a number of systems and controls to ensure compliance with the Order and GSCOP including the following:

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

Under the Order and GSCOP, The Company is required to submit an annual report detailing its compliance with GSCOP to the Audit Committee for approval and to the Office of Fair Trading. The Company submitted its report to the Audit Committee on 11 May 2012 covering the period from 1 April 2011 to 31 March 2012. There were no disputes relating to GSCOP during the financial year ended 31 March 2012.

Creditor payment policy

For all trade creditors, it is the Group's policy to:

- agree the terms of payment at the start of business with that supplier;
- ensure that suppliers are aware of the terms of payment; and
- pay in accordance with its contractual and other legal obligations.

The main trading company, Marks and Spencer plc, has a policy concerning the payment of trade creditors as follows:

- general merchandise payments are received between 25 and 60 days after the stock was invoiced;
- food payments are received between 19 and 25 days after the stock was invoiced; and
- distribution suppliers are paid monthly, for costs incurred in that month, based on estimates, and payments are adjusted quarterly to reflect any variations to estimate.

Trade creditor days for Marks and Spencer plc for the year ended 31 March 2012 were 26 days, or 17 working days (last year 26 days, or 17 working days), based on the ratio of Company trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Market value of properties

The directors believe that the open market value of the properties of the Group exceeds their net book value.

Charitable donations

During the year and in line with our Plan A commitments, the Group made charitable donations to support the community of £11.4m (last year £12.3m), excluding management costs and memberships. These principally consisted of cash donations of £6.9m (last year £6.9m) which included Breakthrough Breast Cancer, Macmillan Cancer Support, Great Ormond Street Hospital, UNICEF, Groundwork, WWF, MCS, our Marks & Start programme and local community donations. We also donated £1.3m (last year £1.3m) of employee time, principally on fundraising and volunteering, Marks & Start and school work experience programmes. As a business we have reduced our waste in the last five years and now do not send anything to landfill. This reduction in waste is reflected in our overall reduction in waste stock donations to a variety of charities, £3.2m (last year £4.1m) including Oxfam, The Newlife Foundation and Shelter.

We also had another successful year supporting a number of our charity partners in raising funds of £8.5m (last year £10.9m). This principally consisted of funds raised from customer clothing donations to Oxfam through The Clothing Exchange, funds raised by Groundwork as a result of M&S support and employee and customer donations.

Political donations

No political donations were made during the year ended 31 March 2012. Marks & Spencer has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

Events after the reporting period

The details and impacts of events after the reporting period can be found in note 29 on page 106.

Other Disclosures continued

Going concern

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 1 to 37 as well as the Group's principal risks and uncertainties as set out on pages 45 to 47. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements.

Auditors

Resolutions to reappoint PricewaterhouseCoopers LLP as auditors of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the 2012 AGM.

Annual General Meeting

The AGM of Marks and Spencer Group plc will be held at the Royal Festival Hall, Southbank Centre, London on 10 July 2012 at 11am. The Notice of Meeting is given, together with explanatory notes, in the booklet which accompanies this report.

Directors' responsibilities

The directors are responsible for preparing the Annual report, the Remuneration report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

– select suitable accounting policies and then apply them consistently;
– make judgements and accounting estimates that are reasonable and prudent;
– state whether applicable IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the financial statements; and
– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. Each of the directors, whose names and functions are listed on pages 40 and 41 of the Annual report, confirm that, to the best of their knowledge:

– the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
– the Business review contained in this report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Disclosure of information to auditor

Each director confirms that, so far as he (she) is aware, there is no relevant audit information of which the Company's auditors are unaware and that each director has taken all the steps that he (she) ought to have taken as a director to make himself (herself) aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Index to principal Directors' report disclosures

Information required to be disclosed in the Directors' report can be found on the following pages:

By order of the Board
Amanda Mellor, Group Secretary

London
21 May 2012

Independent auditors' report

to the members of Marks and Spencer Group plc

We have audited the financial statements of Marks and Spencer Group plc for the 52 weeks ended 31 March 2012 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statements of financial position, the Consolidated statement of changes in equity and Company statement of changes in shareholders' equity, the Consolidated cash flow information and Company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 72, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual report and financial statements 2012 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2012 and of the Group's profit and Group's and parent company's cash flows for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 72, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Stuart Watson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
London
21 May 2012

Consolidated income statement

	Notes	52 weeks ended 31 March 2012 £m	52 weeks ended 2 April 2011 £m
Revenue	2, 3	**9,934.3**	9,740.3
Operating profit	2, 3	**746.5**	836.9
Finance income	6	**48.3**	96.6
Finance costs	6	**(136.8)**	(152.9)
Profit before tax	4	**658.0**	780.6
Income tax expense	7	**(168.4)**	(182.0)
Profit for the year		**489.6**	598.6
Attributable to:			
Equity shareholders of the Company		**513.1**	612.0
Non-controlling interests		**(23.5)**	(13.4)
		489.6	598.6
Basic earnings per share	8	**32.5p**	38.8p
Diluted earnings per share	8	**32.2p**	38.4p
Non-GAAP measures: Underlying profit before tax			
Profit before tax		**658.0**	780.6
Adjusted for:			
Profit on property disposals	5	**–**	(2.9)
IAS 19 Ireland one-off pension credit	5	**–**	(10.7)
IAS 36 Impairment of assets	5	**44.9**	6.3
IAS 39 Fair value movement of financial instrument	5	**(15.6)**	(54.3)
IAS 39 Fair value movement of embedded derivative	5	**0.2**	(20.3)
Strategic programme costs	5	**18.4**	15.6
Underlying profit before tax	1	**705.9**	714.3
Underlying basic earnings per share	8	**34.9p**	34.8p
Underlying diluted earnings per share	8	**34.6p**	34.4p

Consolidated statement of comprehensive income

	Notes	52 weeks ended 31 March 2012 £m	52 weeks ended 2 April 2011 £m
Profit for the year		**489.6**	598.6
Other comprehensive income:			
Foreign currency translation differences		**(15.1)**	(16.4)
Actuarial (losses)/gains on retirement benefit schemes	11	**(189.9)**	286.0
Tax on retirement benefit schemes		**50.4**	(78.0)
Cash flow and net investment hedges			
– fair value movements in equity		**53.0**	(57.8)
– reclassified and reported in net profit		**(23.0)**	42.1
– amount recognised in inventories		**13.7**	(11.2)
Tax on cash flow hedges and net investment hedges		**(7.3)**	19.4
Other comprehensive (loss)/income for the year, net of tax		**(118.2)**	184.1
Total comprehensive income for the year		**371.4**	782.7
Attributable to:			
Equity shareholders of the Company		**394.9**	796.1
Non-controlling interests		**(23.5)**	(13.4)
		371.4	782.7

Consolidated statement of financial position

	Notes	As at 31 March 2012 £m	As at 2 April 2011 £m
Assets			
Non-current assets			
Intangible assets	14	**584.3**	527.7
Property, plant and equipment	15	**4,789.9**	4,662.2
Investment property		**15.9**	16.0
Investment in joint ventures		**14.4**	13.0
Other financial assets	16	**3.0**	3.0
Retirement benefit asset	11	**91.3**	182.6
Trade and other receivables	17	**270.2**	276.1
Derivative financial instruments	21	**44.2**	21.8
		5,813.2	5,702.4
Current assets			
Inventories		**681.9**	685.3
Other financial assets	16	**260.5**	215.9
Trade and other receivables	17	**253.0**	250.3
Derivative financial instruments	21	**67.0**	18.4
Current tax receivable		**1.6**	1.6
Cash and cash equivalents	18	**196.1**	470.2
		1,460.1	1,641.7
Total assets		**7,273.3**	7,344.1
Liabilities			
Current liabilities			
Trade and other payables	19	**1,449.1**	1,347.6
Borrowings and other financial liabilities	20	**327.7**	602.3
Partnership liability to the Marks & Spencer UK Pension Scheme	12	**71.9**	71.9
Derivative financial instruments	21	**60.5**	50.7
Provisions	22	**8.4**	22.7
Current tax liabilities		**87.8**	115.0
		2,005.4	2,210.2
Non-current liabilities			
Retirement benefit deficit	11	**13.3**	14.1
Trade and other payables	19	**280.8**	262.3
Borrowings and other financial liabilities	20	**1,948.1**	1,924.1
Derivative financial instruments	21	**27.2**	37.5
Provisions	22	**24.0**	22.0
Deferred tax liabilities	23	**195.7**	196.5
		2,489.1	2,456.5
Total liabilities		**4,494.5**	4,666.7
Net assets		**2,778.8**	2,677.4
Equity			
Issued share capital	24	**401.4**	396.2
Share premium account		**294.3**	255.2
Capital redemption reserve		**2,202.6**	2,202.6
Hedging reserve		**14.8**	(11.3)
Other reserve		**(6,114.3)**	(6,042.4)
Retained earnings		**5,991.4**	5,873.2
Total shareholders' equity		**2,790.2**	2,673.5
Non-controlling interests in equity		**(11.4)**	3.9
Total equity		**2,778.8**	2,677.4

The financial statements were approved by the Board and authorised for issue on 21 May 2012. The financial statements also comprise the notes on pages 78 to 106.

Marc Bolland Chief Executive Officer

Alan Stewart Chief Finance Officer

Consolidated statement of changes in equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Other reserve[1] £m	Retained earnings[2] £m	Total £m	Non-controlling interest £m	Total £m
At 4 April 2010	395.5	247.5	2,202.6	11.6	(5,970.5)	5,281.9	2,168.6	17.3	2,185.9
Profit/(loss) for the year	–	–	–	–	–	612.0	612.0	(13.4)	598.6
Other comprehensive income:									
Foreign currency translation	–	–	–	(0.7)	–	(15.7)	(16.4)	–	(16.4)
Actuarial gains on retirement benefit schemes	–	–	–	–	–	286.0	286.0	–	286.0
Tax on retirement benefit schemes	–	–	–	–	–	(78.0)	(78.0)	–	(78.0)
Cash flow and net investment hedges									
– fair value movements	–	–	–	(60.4)	–	2.6	(57.8)	–	(57.8)
– reclassified and reported in net profit[3]	–	–	–	42.1	–	–	42.1	–	42.1
– amount recognised in inventories	–	–	–	(11.2)	–	–	(11.2)	–	(11.2)
Tax on cash flow hedges and net investment hedges	–	–	–	7.3	–	12.1	19.4	–	19.4
Other comprehensive income	–	–	–	(22.9)	–	207.0	184.1	–	184.1
Total comprehensive (expenses)/income	–	–	–	(22.9)	–	819.0	796.1	(13.4)	782.7
Transactions with owners:									
Dividends	–	–	–	–	–	(247.5)	(247.5)	–	(247.5)
Recognition of financial liability[4]	–	–	–	–	(71.9)	–	(71.9)	–	(71.9)
Shares issued on exercise of employee share options	0.7	7.7	–	–	–	–	8.4	–	8.4
Purchase of own shares held by employee trusts	–	–	–	–	–	(12.0)	(12.0)	–	(12.0)
Credit for share-based payments	–	–	–	–	–	31.7	31.7	–	31.7
Deferred tax on share schemes	–	–	–	–	–	0.1	0.1	–	0.1
At 2 April 2011	396.2	255.2	2,202.6	(11.3)	(6,042.4)	5,873.2	2,673.5	3.9	2,677.4
At 3 April 2011	**396.2**	**255.2**	**2,202.6**	**(11.3)**	**(6,042.4)**	**5,873.2**	**2,673.5**	**3.9**	**2,677.4**
Profit/(loss) for the year	**–**	**–**	**–**	**–**	**–**	**513.1**	**513.1**	**(23.5)**	**489.6**
Other comprehensive income:									
Foreign currency translation	**–**	**–**	**–**	**(1.1)**	**–**	**(14.0)**	**(15.1)**	**–**	**(15.1)**
Actuarial losses on retirement benefit schemes	**–**	**–**	**–**	**–**	**–**	**(189.9)**	**(189.9)**	**–**	**(189.9)**
Tax on retirement benefit schemes	**–**	**–**	**–**	**–**	**–**	**50.4**	**50.4**	**–**	**50.4**
Cash flow and net investment hedges							**–**		**–**
– fair value movements	**–**	**–**	**–**	**43.8**	**–**	**9.2**	**53.0**	**–**	**53.0**
– reclassified and reported in net profit[3]	**–**	**–**	**–**	**(23.0)**	**–**	**–**	**(23.0)**	**–**	**(23.0)**
– amount recognised in inventories	**–**	**–**	**–**	**13.7**	**–**	**–**	**13.7**	**–**	**13.7**
Tax on cash flow hedges and net investment hedges	**–**	**–**	**–**	**(7.3)**	**–**	**–**	**(7.3)**	**–**	**(7.3)**
Other comprehensive income	**–**	**–**	**–**	**26.1**	**–**	**(144.3)**	**(118.2)**	**–**	**(118.2)**
Total comprehensive income/(expenses)	**–**	**–**	**–**	**26.1**	**–**	**368.8**	**394.9**	**(23.5)**	**371.4**
Transactions with owners:									
Dividends	**–**	**–**	**–**	**–**	**–**	**(267.8)**	**(267.8)**	**–**	**(267.8)**
Transactions with non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**(6.4)**	**(6.4)**	**8.2**	**1.8**
Recognition of financial liability[4]	**–**	**–**	**–**	**–**	**(71.9)**	**–**	**(71.9)**	**–**	**(71.9)**
Shares issued on exercise of employee share options	**5.2**	**39.1**	**–**	**–**	**–**	**–**	**44.3**	**–**	**44.3**
Purchase of own shares held by employee trusts	**–**	**–**	**–**	**–**	**–**	**(13.2)**	**(13.2)**	**–**	**(13.2)**
Credit for share-based payments	**–**	**–**	**–**	**–**	**–**	**32.5**	**32.5**	**–**	**32.5**
Deferred tax on share schemes	**–**	**–**	**–**	**–**	**–**	**4.3**	**4.3**	**–**	**4.3**
At 31 March 2012	**401.4**	**294.3**	**2,202.6**	**14.8**	**(6,114.3)**	**5,991.4**	**2,790.2**	**(11.4)**	**2,778.8**

1 The 'Other reserve' was originally created as part of the capital restructuring that took place in 2002. It represents the difference between the nominal value of the shares issued prior to the capital reduction by the Company (being the carrying value of the investment in Marks and Spencer plc) and the share capital, share premium and capital redemption reserve of Marks and Spencer plc at the date of the transaction. The reserve also includes discretionary distributions to the Marks & Spencer UK Pension Scheme of £427.9m (last year £499.8m) (see note 11).

2 The 'Retained earnings reserve' includes a cumulative £5.1m gain (last year £19.1m gain) in the currency reserve.

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

4 Following the Group's payment of an interim dividend in relation to 2011/12, the associated distribution of £71.9m became payable to the Marks & Spencer UK Pension Scheme and has been recognised as a liability (see note 12).

Consolidated cash flow information

	Notes	52 weeks ended 31 March 2012 £m	52 weeks ended 2 April 2011 £m
Consolidated statement of cash flows			
Cash flows from operating activities			
Cash generated from operations	26	**1,352.1**	1,385.2
Income tax paid		**(149.1)**	(185.3)
Net cash generated from operating activities		**1,203.0**	1,199.9
Cash flows from investing activities			
Purchase of property, plant and equipment		**(564.3)**	(327.3)
Proceeds from sale of property, plant and equipment		**–**	3.5
Purchase of intangible assets		**(156.4)**	(126.5)
Purchase of current financial assets		**(44.8)**	(44.3)
Interest received		**7.7**	4.1
Net cash used in investing activities		**(757.8)**	(490.5)
Cash flows from financing activities			
Interest paid		**(135.9)**	(146.4)
Cash (outflow)/inflow from borrowings		**(41.4)**	18.4
Repayment of syndicated bank facility		**–**	(217.5)
Issue of medium-term notes		**295.5**	–
Redemption of medium-term notes		**(307.6)**	–
Monetisation of derivative assets		**–**	32.8
Decrease in obligations under finance leases		**(13.0)**	(15.7)
Payment of liability to the Marks & Spencer UK Pension Scheme		**(71.9)**	(67.9)
Equity dividends paid		**(267.8)**	(247.5)
Shares issued on exercise of employee share options		**44.3**	8.4
Purchase of own shares by employee trust		**(13.2)**	(12.0)
Net cash used in financing activities		**(511.0)**	(647.4)
Net cash (outflow)/inflow from activities		**(65.8)**	62.0
Effects of exchange rate changes		**(1.9)**	(1.2)
Opening net cash		**263.5**	202.7
Closing net cash	27	**195.8**	263.5

	Notes	52 weeks ended 31 March 2012 £m	52 weeks ended 2 April 2011 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		**(1,900.9)**	(2,068.4)
Net cash (outflow)/inflow from activities		**(65.8)**	62.0
Increase in current financial assets		**44.8**	44.3
Decrease in debt financing		**138.4**	249.9
Partnership liability to the Marks & Spencer UK Pension Scheme (non-cash)		**(71.9)**	(71.9)
Exchange and other non-cash movements		**(1.7)**	(116.8)
Movement in net debt		**43.8**	167.5
Closing net debt	27	**(1,857.1)**	(1,900.9)

Notes to the financial statements

1 Accounting policies

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

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 1 to 37 as well as the Group's principal risks and uncertainties as set out on pages 46 to 47. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements.

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

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

IAS 19, 'Employee benefits' was amended in June 2011 and is effective for periods beginning on or after 1 January 2013. The impact will be to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability/asset. The Group is yet to assess the full impact of this amendment.

There are no other IFRS or IFRS IC interpretations that are not yet effective that would be expected to have a material impact on the Group.

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

A summary of the Company's and the Group's accounting policies is given below:

Accounting convention
The financial statements are drawn up on the historical cost basis of accounting, except as disclosed in the accounting policies set out below.

Basis of consolidation
The Group financial statements incorporate the financial statements of Marks and Spencer Group plc and all its subsidiaries made up to the year end date. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

Subsidiaries
Subsidiary undertakings are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiary undertakings acquired during the year are recorded using the acquisition method of accounting and their results are included from the date of acquisition.

The separable net assets, including property, plant and equipment and intangible assets, of the newly acquired subsidiary undertakings are incorporated into the consolidated financial statements on the basis of the fair value as at the effective date of control.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Revenue
Revenue comprises sales of goods to customers outside the Group less an appropriate deduction for actual and expected returns, discounts and loyalty scheme vouchers, and is stated net of value added tax and other sales taxes. Revenue is recognised when goods are delivered and the significant risks and rewards of ownership have been transferred to the buyer.

Dividends
Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

Pensions
Funded pension plans are in place for the Group's UK employees and some employees overseas.

For defined benefit pension schemes, the difference between the fair value of the assets and the present value of the defined benefit obligation is recognised as an asset or liability in the statement of financial position. The defined benefit obligation is actuarially calculated using the projected unit credit method.

The service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service, is charged to operating profit in the year.

A credit representing the expected return on the assets of the retirement benefit schemes during the year is included within finance income. This is based on the market value of the assets of the schemes at the start of the financial year.

A charge is also made within finance income representing the expected increase in the liabilities of the retirement benefit schemes during the year. This arises from the liabilities of the schemes being one year closer to payment.

Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Intangible assets
A. Goodwill Goodwill arising on consolidation represents the excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable assets and liabilities (including intangible assets) of the acquired entity at the date of the acquisition. Goodwill is recognised as an asset and assessed for impairment at least annually. Any impairment is recognised immediately in the income statement.

B. Brands Acquired brand values are held on the statement of financial position initially at cost. Defined life intangibles are amortised on a straight-line basis over their estimated useful lives. Indefinite life intangibles are tested for impairment at least annually. Any impairment in value is recognised immediately in the income statement.

1 Accounting policies continued

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, services and payroll related costs for employees who are directly associated with the project.

Capitalised software development costs are amortised on a straight-line basis over their expected economic lives, normally between three and ten years. Computer software under development is held at cost less any recognised impairment loss.

Any impairment in value is charged to the income statement.

Property, plant and equipment
The Group's policy is to state property, plant and equipment at cost less accumulated depreciation and any recognised impairment loss. Property is not revalued for accounting purposes. Assets in the course of construction are held at cost less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs.

Depreciation is provided to write off the cost of tangible non-current assets (including investment properties), less estimated residual values, by equal annual instalments as follows:

- freehold land – not depreciated;
- freehold and leasehold buildings with a remaining lease term over 50 years – depreciated to their residual value over their estimated remaining economic lives;
- leasehold buildings with a remaining lease term of less than 50 years – over the remaining period of the lease; and
- fixtures, fittings and equipment – 3 to 25 years according to the estimated life of the asset.

Residual values and useful economic lives are reviewed annually. Depreciation is charged on all additions to, or disposals of, depreciating assets in the year of purchase or disposal.

Any impairment in value is charged to the income statement.

Leasing
Where assets are financed by leasing agreements and the risks and rewards are substantially transferred to the Group (finance leases) the assets are treated as if they had been purchased outright, and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on leased assets is charged to the income statement on the same basis as owned assets, unless the term of the lease is shorter. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement.

All other leases are operating leases and the costs in respect of operating leases are charged on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, a rent free period) is recognised as deferred income and is released over the life of the lease.

Leasehold prepayments
Payments made to acquire leasehold land are included in prepayments at cost and are amortised over the life of the lease.

Cash and cash equivalents
Cash and cash equivalents includes short-term deposits with banks and other financial institutions, with an initial maturity of three months or less and credit card payment received within 48 hours.

Inventories
Inventories are valued at the lower of cost and net realisable value using the retail method, which is computed on the basis of selling price less the appropriate trading margin. All inventories are finished goods.

Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

Share-based payments
The Group issues equity-settled share-based payments to certain employees. A fair value for the equity-settled share awards is measured at the date of grant. The Group measures the fair value of each award using the Black-Scholes model where appropriate.

The fair value of each award is recognised as an expense over the vesting period on a straight-line basis, after allowing for an estimate of the share awards that will eventually vest. The level of vesting is reviewed annually; and the charge is adjusted to reflect actual and estimated levels of vesting.

Foreign currencies
The results of overseas subsidiaries are translated at the weighted average of monthly exchange rates for revenue and profits. The statements of financial position of overseas subsidiaries are translated at year end exchange rates. The resulting exchange differences are dealt with through reserves and reported in the consolidated statement of comprehensive income.

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities held at the end of the reporting period are translated at the closing balance sheet rate. The resulting exchange gain or loss is recognised within the income statement.

Taxation
Tax expense comprises current and deferred tax. Tax is recognised in the income statement, except to the extent it relates to items recognised in other comprehensive income or directly in equity, in which case the related tax is also recognised in other comprehensive income or directly in equity.

Deferred tax is accounted for using a temporary difference approach, and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, applying tax rates and laws enacted or substantively enacted at the end of the reporting period.

Notes to the financial statements continued

1 Accounting policies continued

Taxation continued

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the reversal of the temporary difference can be controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

A. Trade receivables Trade receivables are recorded initially at fair value and subsequently measured at amortised cost. Generally, this results in their recognition at nominal value less any allowance for any doubtful debts.

B. Investments and other financial assets Investments and other financial assets are classified as either 'available-for-sale' or 'fair value through profit or loss'. They are initially measured at fair value, including transaction costs, with the exception of 'fair value through profit or loss'. Financial assets held at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed.

Where securities are designated as 'fair value through profit or loss', gains and losses arising from changes in fair value are included in net profit or loss for the period. For 'available-for-sale' investments, gains or losses arising from changes in fair value are recognised in comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in comprehensive income is included in the net profit or loss for the period. Equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by other means are held at cost.

C. Classification of financial liabilities and equity Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

D. Bank borrowings Interest-bearing bank loans and overdrafts are initially recorded at fair value, which equals the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for using an effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

E. Loan notes Long-term loans are initially measured at fair value and are subsequently held at amortised cost unless the loan is hedged by a derivative financial instrument in which case hedge accounting treatment will apply.

F. Trade payables Trade payables are recorded initially at fair value and subsequently measured at amortised cost. Generally this results in their recognition at their nominal value.

G. Equity instruments Equity instruments issued by the Company are recorded at the consideration received, net of direct issue costs.

Derivative financial instruments and hedging activities

The Group primarily uses interest rate swaps and forward foreign currency contracts to manage its exposures to fluctuating interest and foreign exchange rates. These instruments are initially recognised at fair value on the trade date and are subsequently remeasured at their fair value at the end of the reporting period. The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

The Group designates certain hedging derivatives as either:

- a hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge);
- a hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge); or
- a hedge of the exposure on the translation of net investments in foreign entities (a net investment hedge).

Underlying the definition of fair value is the presumption that the Group is a going concern without any intention of materially curtailing the scale of its operations.

At inception of a hedging relationship, the hedging instrument and the hedged item are documented and prospective effectiveness testing is performed. During the life of the hedging relationship, effectiveness testing is continued to ensure the instrument remains an effective hedge of the transaction. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

A. Cash flow hedges Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised in comprehensive income and any ineffective portion is recognised immediately in the income statement. If the firm commitment or forecast transaction that is the subject of a cash flow hedge results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in comprehensive income are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in comprehensive income are recognised in the income statement in the same period in which the hedged items affect net profit or loss.

1 Accounting policies continued

B. Fair value hedges For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement. Gains and losses from remeasuring the derivative, or for non-derivatives the foreign currency component of the carrying amount, are recognised in the income statement.

C. Net investment hedges Changes in the fair value of derivative or non-derivative financial instruments that are designated and effective as hedges of net investments are recognised in comprehensive income and any ineffective portion is recognised immediately in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

D. Discontinuance of hedge accounting Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in comprehensive income is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in comprehensive income is transferred to net profit or loss for the period.

The Group does not use derivatives to hedge income statement translation exposures.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the income statement. Embedded derivatives are carried in the statement of financial position at fair value from the inception of the host contract.

Changes in fair value are recognised within the income statement during the period in which they arise.

Critical accounting estimates and judgements

The preparation of consolidated financial statements requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are:

A. Impairment of goodwill and brands The Group is required to test, at least annually, whether the goodwill or brands have suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows. Where there is a non-controlling interest, goodwill is tested for the business as a whole. This involves a notional increase to goodwill, to reflect the non-controlling shareholders' interest. Actual outcomes could vary from those calculated. See note 14 for further details.

B. Impairment of property, plant and equipment and computer software Property, plant and equipment and computer software are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations prepared on the basis of management's assumptions and estimates. See notes 14 and 15 for further details.

C. Depreciation of property, plant and equipment and amortisation of computer software Depreciation and amortisation is provided so as to write down the assets to their residual values over their estimated useful lives as set out above. The selection of these residual values and estimated lives requires the exercise of management judgement. See notes 14 and 15 for further details.

D. Post-retirement benefits
The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions which include the discount rate, inflation rate, salary growth, mortality and expected return on scheme assets. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. See note 11 for further details of assumptions and note 12 for critical judgements associated with the Marks & Spencer UK Pension Scheme interest in the Marks and Spencer Scottish Limited Partnership.

E. Refunds and loyalty scheme accruals Accruals for sales returns and loyalty scheme redemptions are estimated on the basis of historical returns and redemptions and these are recorded so as to allocate them to the same period as the original revenue is recorded. These accruals are reviewed regularly and updated to reflect management's latest best estimates, however, actual returns and redemptions could vary from these estimates.

Non-GAAP performance measures

The directors believe that the underlying profit and earnings per share measures provide additional useful information for shareholders on the underlying performance of the business. These measures are consistent with how underlying business performance is measured internally. The underlying profit before tax measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. The adjustments made to reported profit before tax are to exclude the following:

- profits and losses on the disposal of properties;
- significant and one-off impairment charges that distort underlying trading;
- costs relating to strategy changes that are not considered normal operating costs of the underlying business;
- one-off pension credits arising on changes of the defined benefit pension scheme rules; and
- non-cash fair value movements in financial instruments.

Notes to the financial statements continued

2 Segmental information

IFRS 8 requires operating segments to be identified on the basis of internal reporting on components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance.

The chief operating decision maker has been identified as the executive directors. The executive directors review the Group's internal reporting in order to assess performance and allocate resources, across each operating segment. The operating segments are UK and International which are reported in a manner consistent with the internal reporting to the executive directors.

The UK segment consists of the UK retail business and UK franchise operations. The International segment consists of Marks & Spencer owned businesses in the Republic of Ireland, Europe and Asia, together with international franchise operations.

The executive directors assess the performance of the operating segments based on a measure of operating profit. This measurement basis excludes the effects of non-underlying items from the operating segments. Central costs are all classified as UK costs and presented within UK operating profit. The executive directors also monitor revenue within the segments. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segments, by subcategory.

The following is an analysis of the Group's revenue and results by reportable segment:

			2012			2011
	Management £m	Adjustment[2] £m	Statutory £m	Management £m	Adjustment[2] £m	Statutory £m
General Merchandise	4,241.5	(46.4)	4,195.1	4,273.0	(39.4)	4,233.6
Food	4,718.8	(45.7)	4,673.1	4,543.9	(44.5)	4,499.4
UK revenue	8,960.3	(92.1)	8,868.2	8,816.9	(83.9)	8,733.0
Franchised	379.4	–	379.4	343.7	–	343.7
Owned	689.4	(2.7)	686.7	665.8	(2.2)	663.6
International revenue	1,068.8	(2.7)	1,066.1	1,009.5	(2.2)	1,007.3
Group revenue	10,029.1	(94.8)	9,934.3	9,826.4	(86.1)	9,740.3
UK operating profit[1]	676.6	(18.6)	658.0	677.9	1.1	679.0
International operating profit	133.4	(44.9)	88.5	147.0	10.9	157.9
Group operating profit	810.0	(63.5)	746.5	824.9	12.0	836.9
Finance income	32.7	15.6	48.3	42.3	54.3	96.6
Finance costs	(136.8)	–	(136.8)	(152.9)	–	(152.9)
Profit before tax	705.9	(47.9)	658.0	714.3	66.3	780.6

1 UK operating profit includes a contribution of £50.7m (last year £35.2m) in respect of fees received from HSBC in relation to M&S Money.

2 Adjustments to revenue relate to revenue deductions recognised in cost of sales for management accounting purposes. Management profit excludes profits and losses on the disposal of properties, impairment charges, pension credits arising on changes of the defined benefit pension schemes, non-cash fair value movements in financial instruments and costs relating to strategic changes that are not considered normal operating costs of the underlying business (see note 5).

Other segmental information

			2012			2011
	UK £m	International £m	Total £m	UK £m	International £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	671.4	66.1	737.5	463.6	27.9	491.5
Depreciation and amortisation	435.8	34.3	470.1	434.5	33.0	467.5
Impairment and asset write-offs	7.3	50.5	57.8	3.4	–	3.4
Total assets	6,247.1	1,026.2	7,273.3	6,287.6	1,056.5	7,344.1
Non-current assets	4,894.6	918.6	5,813.2	4,751.1	951.3	5,702.4

3 Expense analysis

	2012 Underlying £m	2012 Adjustments £m	2012 Total £m	2011 Underlying £m	2011 Adjustments £m	2011 Total £m
Revenue	9,934.3	–	9,934.3	9,740.3	–	9,740.3
Cost of sales	(6,179.1)	–	(6,179.1)	(6,015.6)	–	(6,015.6)
Gross profit	3,755.2	–	3,755.2	3,724.7	–	3,724.7
Selling and administrative expenses	(3,021.9)	–	(3,021.9)	(2,959.7)	–	(2,959.7)
Other operating income	76.7	–	76.7	59.9	–	59.9
Non-GAAP adjustments to underlying profit (see note 5)	–	(63.5)	(63.5)	–	12.0	12.0
Operating profit	810.0	(63.5)	746.5	824.9	12.0	836.9

The selling and administrative expenses are further analysed below:

	2012 £m	2011 £m
Employee costs (see note 10A)	1,253.5	1,264.2
Occupancy costs	637.9	585.3
Repairs, renewals and maintenance of property	101.4	101.8
Depreciation, amortisation and asset write-offs	479.7	467.5
Other costs	549.4	540.9
Selling and administrative expenses	3,021.9	2,959.7

4 Profit before taxation

The following items have been included in arriving at profit before taxation:

	2012 £m	2011 £m
Net foreign exchange losses/(gains)	0.1	(3.0)
Cost of inventories recognised as an expense	6,127.0	5,781.8
Depreciation of property, plant, and equipment		
– owned assets	393.5	403.3
– under finance leases	11.3	13.2
Amortisation of intangible assets	65.3	51.0
Profit on property disposals	–	(2.9)
Operating lease rentals payable		
– property	278.7	247.6
– fixtures, fittings and equipment	7.8	8.7

Included in administrative expenses is the auditors' remuneration, including expenses for audit and non-audit services, payable to the Company's auditors PricewaterhouseCoopers LLP and its associates as follows:

	2012 £m	2011 £m
Annual audit of the Company and the consolidated financial statements	0.6	0.6
Audit of subsidiary companies	1.0	1.0
Other services pursuant to legislation	0.3	0.1
Tax services	0.4	0.6
Other services	0.1	0.1
	2.4	2.4

Notes to the financial statements continued

5 Non-GAAP performance measures

The adjustments made to reported profit before tax are income and charges that are one-off in nature, significant and distort the Group's underlying performance. These adjustments include:

- Profit and loss on the disposal of properties – these are one-off in nature and therefore create volatility in reported earnings;
- IAS 19 credit arising from changes to the Marks and Spencer Ireland defined benefit pension scheme rules whereby members' future pensionable pay increases have been capped at 4.0%;
- IAS 36 impairment of assets – due to the continuing decline of the Greek economy, the carrying value of the Marks and Spencer Marinopoulos B.V. goodwill has been fully impaired to reflect its recoverable value (note 14) and the net book value of property, plant and equipment in loss making stores in the Greece group have been impaired (note 15). Last year, the value of an investment property was impaired to reflect its recoverable value, in line with its current market value;
- IAS 39 fair value movement on the Czech put option – the put option value has been revised to reflect the latest three year business plan;
- IAS 39 fair value movement of the embedded derivative in a lease contract based upon the expected future RPI versus the lease contract in which rent increases are capped at 2.5%, with a floor of 1.5%; and
- Strategic programme costs relate to the strategy announcements made in November 2010 and include the costs associated with the Focus on the UK plans. This includes brand segmentation and business integration costs, asset write-offs, accelerated depreciation and exit from technology in the prior year. These costs are not considered normal operating costs of the business.

The adjustments made to reported profit before tax to arrive at underlying profit before tax are:

	Note	2012 £m	2011 £m
Profit on property disposals		–	2.9
IAS 19 Ireland one-off pension credit	11	–	10.7
IAS 36 Impairment of assets	14,15	(44.9)	(6.3)
IAS 39 Fair value movement of financial instrument	6, 21	15.6	54.3
IAS 39 Fair value movement of embedded derivative	21	(0.2)	20.3
Strategic programme costs		(18.4)	(15.6)
Total adjustments		**(47.9)**	**66.3**

6 Finance income/costs

	2012 £m	2011 restated £m
Bank and other interest receivable	7.1	4.7
Pension finance income (net) (see note 11E)	25.6	37.6
Underlying finance income	**32.7**	**42.3**
Fair value movement on financial instrument (see note 5)	15.6	54.3
Finance income	**48.3**	**96.6**
Fee payable on the transfer of derivative assets to the pension fund	–	(8.5)
Interest on bank borrowings	(5.5)	(7.7)
Interest payable on syndicated bank facility	(3.0)	(1.8)
Interest payable on medium-term notes	(126.4)	(126.9)
Interest payable on finance leases	(0.7)	(4.2)
Unwind of discounts on financial instruments	(1.2)	(3.8)
Finance costs	**(136.8)**	**(152.9)**
Net finance costs	**(88.5)**	**(56.3)**

The fair value movement on financial instrument represents the valuation of the put option over the 49% non-controlling interest in the share capital of Marks and Spencer Czech Republic a.s. This excludes the annual unwind of the discount on the financial instrument which is included in underlying finance costs (see note 21).

7 Income tax expense

A. Tax charge

	2012 £m	2011 £m
Current tax		
UK corporation tax on profits for the year		
– current year	**175.9**	215.8
– adjustments in respect of prior years	**(9.3)**	(8.6)
UK current tax	**166.6**	207.2
Overseas current tax	**11.6**	11.1
Total current tax	**178.2**	218.3
Deferred tax		
– origination and reversal of temporary differences	**(10.5)**	(30.4)
– adjustments in respect of prior years	**14.0**	7.2
– changes in tax rate	**(13.3)**	(13.1)
Total deferred tax (see note 23)	**(9.8)**	(36.3)
Total income tax expense	**168.4**	182.0

B. Tax reconciliation

	2012 £m	2011 £m
Profit before tax	**658.0**	780.6
Tax at the standard UK corporation tax rate of 26% (last year 28%)	**171.1**	218.6
Depreciation, charges and other amounts on non-qualifying fixed assets	**3.6**	1.9
Other income and expenses not taxable or deductible	**(11.1)**	(11.2)
Deferred tax rate change benefit	**(13.1)**	(12.9)
Overseas profits taxed at rates different to those of the UK	**(8.6)**	(4.2)
Benefit of current year losses not recognised	**14.3**	7.3
Adjustments to tax charge in respect of prior periods	**4.7**	(1.4)
Adjustments to underlying profit:		
Profit on property disposals	**–**	(0.8)
IAS 19 Ireland one-off pension credit	**–**	(1.7)
IAS 36 Impairment of assets	**11.7**	1.8
IAS 39 Fair value movement of financial instrument	**(4.0)**	(15.2)
Deferred tax rate change benefit	**(0.2)**	(0.2)
Total income tax expense	**168.4**	182.0

The effective tax rate was 25.6% (last year 23.3%) and the underlying effective tax rate was 24.5% (last year 25.1%).

On 21 March 2012, the Chancellor of the Exchequer announced the main rate of corporation tax will reduce from 26% to 24% from 1 April 2012. This change of rate became substantively enacted for the purposes of IAS 12 "Income Taxes" on 26 March 2012 when the House of Commons passed a resolution in respect of it under the provisional Collection of Taxes Act 1968. The Group has remeasured its UK deferred tax assets and liabilities at the end of the reporting period at 24%, which has resulted in the recognition of a deferred tax credit of £13.3m in the income statement (reducing the total effective tax rate by 2.0%), and the recognition of a deferred tax credit of £1.8m in other comprehensive income.

The Chancellor further stated his intention to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 and a further 1% reduction to 22% from 1 April 2014. These changes have not been substantively enacted at the date of the statement of financial position. Had these changes been enacted, then the cumulative effects would have been credits to the income statement of £19.9m (23%) or £26.5m (22%), and credits to other comprehensive income of £2.7m (23%) or £3.6m (22%).

Notes to the financial statements continued

8 Earnings per share

The calculation of earnings per ordinary share is based on earnings after tax and the weighted average number of ordinary shares in issue during the year.

The underlying earnings per share figures have also been calculated based on earnings before profits and losses on the disposal of properties, pension credits arising on changes to the defined benefit pension schemes, impairment charges, non-cash fair value movements in financial instruments, and costs relating to strategic changes that are not considered normal operating costs of the underlying business (see note 5). These have been calculated to allow the shareholders to gain an understanding of the underlying trading performance of the Group.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has only one class of dilutive potential ordinary shares being those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

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

	2012 £m	2011 £m
Profit attributable to equity share holders of the company	**513.1**	612.0
(Less)/add (net of tax):		
Profit on property disposals	**–**	(2.9)
IAS 19 Ireland one-off pension credit	**–**	(9.4)
IAS 36 Impairment of assets	**39.6**	6.3
IAS 39 Fair value movement of financial instrument	**(15.6)**	(54.3)
IAS 39 Fair value movement of embedded derivative	**0.2**	(15.1)
Strategic programme costs	**13.8**	11.5
Underlying profit attributable to equity share holders of the company	**551.1**	548.1

	Million	Million
Weighted average number of ordinary shares in issue	**1,579.3**	1,577.1
Potentially dilutive share options under Group's share option schemes	**12.9**	15.6
Weighted average number of diluted ordinary shares	**1,592.2**	1,592.7

	Pence	Pence
Basic earnings per share	**32.5**	38.8
Diluted earnings per share	**32.2**	38.4
Underlying basic earnings per share	**34.9**	34.8
Underlying diluted earnings per share	**34.6**	34.4

9 Dividends

	2012 per share	2011 per share	2012 £m	2011 £m
Dividends on equity ordinary shares				
Paid final dividend	**10.8p**	9.5p	**170.2**	149.7
Paid interim dividend	**6.2p**	6.2p	**97.6**	97.8
	17.0p	15.7p	**267.8**	247.5

In addition, the directors have proposed a final dividend in respect of the year ended 31 March 2012 of 10.8p per share amounting to a dividend of £172.3m. It will be paid on 13 July 2012 to shareholders who are on the Register of Members on 1 June 2012. In line with the requirements of IAS 10 – 'Events after the Reporting Period', this dividend has not been recognised within these results.

The Group's policy to grow dividends in line with underlying earnings per share is explained in the Financial Review on page 36.

10 Employees

A. Aggregate remuneration

The aggregate remuneration and associated costs of Group employees were:

	2012 Total £m	2011 Total £m
Wages and salaries	**1,061.3**	1,077.0
Social security costs	**77.7**	78.5
Pension costs	**57.7**	60.0
Share-based payments (see note 13)	**32.5**	31.7
Employee welfare and other personnel costs	**46.0**	37.2
Capitalised staff costs	**(21.7)**	(20.2)
Aggregate remuneration	**1,253.5**	1,264.2
One-off pension credit (see note 5)	**–**	(10.7)
Total aggregate remuneration	**1,253.5**	1,253.5

Details of key management compensation are given in note 28.

B. Average monthly number of employees

	2012	2011
UK stores		
– management and supervisory categories	**5,784**	5,696
– other	**65,474**	63,005
UK head office		
– management and supervisory categories	**2,782**	2,453
– other	**718**	681
Overseas	**6,450**	6,334
Total average monthly number of employees	**81,208**	78,169

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees would have been 57,054 (last year 54,675).

C. Directors' emoluments

Emoluments of directors of the Company are summarised below. Further details are given in the Remuneration Report on pages 54 to 67.

	2012 £000	2011 £000
Aggregate emoluments	**7,796**	11,618

The emoluments include payments to directors who retired from the Board in 2010/11 of £nil (last year £3,138,000).

11 Retirement benefits

The Group provides pension arrangements for the benefit of its UK employees through the Marks & Spencer UK Pension Scheme. This has a defined benefit section, which was closed to new entrants with effect from 1 April 2002, and a defined contribution section which has been open to new members with effect from 1 April 2003.

The defined benefit section operates on a final salary basis and at the year end had some 14,000 active members (last year 15,000), 56,000 deferred members (last year 56,000) and 51,000 pensioners (last year 51,000). At the year end, the defined contribution section had some 9,000 active members (last year 9,000) and some 2,000 deferred members (last year 2,000).

The Group also operates a small funded defined benefit pension scheme in the Republic of Ireland. Retirement benefits also include a UK post-retirement healthcare scheme and unfunded retirement benefits.

Within the total Group retirement benefit cost of £32.1m (last year £22.4m excluding a one-off pension credit of £10.7m), £12.0m (last year £1.0m) relates to the UK defined benefit section, £15.9m (last year £14.3m) to the UK defined contribution section and £4.2m (last year £7.1m) to other retirement benefit schemes.

Notes to the financial statements continued

11 Retirement benefits continued

A. Pensions and other post-retirement liabilities

	2012 £m	2011 £m
Total market value of assets	**6,186.4**	5,398.1
Present value of scheme liabilities	**(6,095.1)**	(5,215.5)
Net funded pension plan asset	**91.3**	182.6
Unfunded retirement benefits	**(0.8)**	(0.9)
Post-retirement healthcare	**(12.5)**	(13.2)
Net retirement benefit asset	**78.0**	168.5
Analysed in the statement of financial position as:		
Retirement benefit asset	**91.3**	182.6
Retirement benefit deficit	**(13.3)**	(14.1)
	78.0	168.5

B. Financial assumptions

A full actuarial valuation of the UK Defined Benefit Pension Scheme was carried out at 31 March 2009 and showed a deficit of £1.3bn. A funding plan of £800m was agreed with the Trustees. The difference between the valuation and the funding plan is expected to be met by investment returns on the existing assets of the pension scheme. The financial assumptions for the UK scheme and the most recent actuarial valuations of the other post-retirement schemes have been updated by independent qualified actuaries to take account of the requirements of IAS 19 – 'Employee Benefits' in order to assess the liabilities of the schemes and are as follows:

	2012 %	2011 %
Rate of increase in salaries	**1.0**	1.0
Rate of increase in pensions in payment for service	**2.3-3.1**	2.4-3.4
Discount rate	**4.6**	5.5
Inflation rate	**3.1**	3.4
Long-term healthcare cost increases	**7.1**	7.4

The inflation rate of 3.1% reflects the Retail Price Index (RPI) rate. In line with changes to legislation certain benefits have been calculated with reference to the Consumer Price Index (CPI) as the inflationary measure and in these instances a rate of 2.1% (last year 2.7%) has been used. Last year, the change from RPI to CPI for deferred revaluation was included in the results, resulting in a gain of approximately £170m, taken as an actuarial gain on the obligation.

The amount of the surplus varies if the main financial assumptions change, particularly the discount rate. If the discount rate increased/decreased by 0.1% the IAS 19 surplus would increase/decrease by c.£110m (last year £90m). If the inflation rate increased by 0.1%, the IAS 19 surplus would decrease by c.£75m and if the inflation rate decreased by 0.1%, the IAS 19 surplus would increase by c.£65m.

C. Demographic assumptions

Apart from cash commutation and post retirement mortality, the demographic assumptions are in line with those adopted for the last formal actuarial valuation of the scheme performed as at 31 March 2009. The allowance for cash commutation reflects actual scheme experience. The post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2009 updated to allow for anticipated longevity improvements over the subsequent years. The specific mortality rates used are based on the SAPS tables, adjusted to allow for the experience of scheme pensioners. The life expectancies underlying the valuation are as follows:

		2012 years	2011 years
Current pensioners (at age 65)	– males	**22.1**	22.0
	– females	**23.4**	23.4
Future pensioners (at age 65)	– males	**23.2**	23.2
	– females	**24.3**	24.3

An increase of one year in the life expectancies would decrease the IAS 19 surplus by c.£200m.

11 Retirement benefits continued

D. Analysis of assets and expected rates of return

The major categories of assets as a percentage of total plan assets are:

	2012 £m	2011 £m	2012 %	2011 %
Scottish Limited Partnership interest (see note 12)	**664.8**	656.0	**11**	12
UK equities	**232.6**	303.3	**4**	6
Overseas equities	**777.4**	839.4	**13**	16
Government bonds	**1,750.9**	1,446.9	**28**	27
Corporate bonds	**1,455.7**	1,531.4	**23**	28
Swaps[1]	**275.9**	(48.2)	**4**	(1)
Cash and other	**1,029.1**	669.3	**17**	12
Total market value of assets	**6,186.4**	5,398.1	**100**	100

1 The swaps hedge interest and inflation rate exposures within the schemes' liabilities.

The expected long-term rates of return are:

	2012 %	2011 %
Scottish Limited Partnership interest (see note 12)	**3.5**	4.6
UK equities	**7.8**	8.4
Overseas equities	**7.8**	8.4
Government bonds	**3.3**	4.3
Corporate bonds	**4.9**	5.8
Swaps	**3.3**	4.1
Cash and other	**3.3**	4.1
Overall expected return	**4.9**	5.8

The overall expected return on assets assumption is derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward-looking views of financial markets (as suggested by the yields available) and the views of investment organisations. Consideration is also given to the rate of return expected to be available for reinvestment.

At year end, the UK scheme indirectly held 107,216 (last year 122,362) ordinary shares in the Company through its investment in an Aquila Life UK Equity Index Fund.

E. Analysis of amount charged against profits

	2012 £m	2011 £m
Operating cost		
Current service cost	**56.7**	59.0
Curtailment charge	**1.0**	1.0
One-off pension credit (see note 5)	**–**	(10.7)
	57.7	49.3
Finance cost		
Expected return on plan assets	**(307.4)**	(323.1)
Interest on scheme liabilities	**281.8**	285.5
Net finance income	**(25.6)**	(37.6)
Total	**32.1**	11.7

F. Scheme assets

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

	2012 £m	2011 £m
Fair value of scheme assets at start of year	**5,398.1**	4,948.6
Expected return on scheme assets[1]	**307.4**	323.1
Employer contributions	**131.9**	259.8
Contributions from scheme members	**–**	0.2
Benefits paid	**(230.4)**	(256.3)
Actuarial gain	**581.0**	124.1
Exchange movement	**(1.6)**	(1.4)
Fair value of scheme assets at end of year	**6,186.4**	5,398.1

1 The actual return on scheme assets was £888.4m (last year return of £447.2m).

Notes to the financial statements continued

11 Retirement benefits continued

Future contributions to the UK scheme will be made at the rate of 17.9% of pensionable salaries up to the next full actuarial valuation. The Group expects to contribute c.£35m to the UK defined benefit scheme for the year ended 30 March 2013. In addition to this, a further £32m (last year £35m) of cash contributions were made in March 2012 per the funding plan agreed in May 2010.

G. Retirement benefit obligations

Changes in the present value of retirement benefit obligations are as follows:

	2012 £m	2011 £m
Present value of obligation at start of year	**5,229.6**	5,315.1
Current service cost	**56.7**	59.0
Curtailment charge	**1.0**	1.0
One-off pension credit (see note 5)	**–**	(10.7)
Interest cost	**281.8**	285.5
Contributions from scheme members	**–**	0.2
Benefits paid	**(230.4)**	(256.3)
Actuarial loss/(gain)	**770.9**	(161.9)
Exchange movement	**(1.2)**	(2.3)
Present value of obligation at end of year	**6,108.4**	5,229.6
Analysed as:		
Present value of pension scheme liabilities	**6,095.1**	5,215.5
Unfunded pension plans	**0.8**	0.9
Post-retirement healthcare	**12.5**	13.2
Present value of obligation at end of year	**6,108.4**	5,229.6

H. Cumulative actuarial gains and losses recognised in equity

	2012 £m	2011 £m
Loss at start of year	**(1,222.9)**	(1,508.9)
Net actuarial (losses)/gains recognised in the year	**(189.9)**	286.0
Loss at end of year	**(1,412.8)**	(1,222.9)

I. History of experience gains and losses

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Experience adjustments arising on scheme assets	**581.0**	124.1	867.7	(1,280.3)	(422.6)
Experience (losses)/gains arising on scheme liabilities	**(85.3)**	(8.4)	36.2	81.2	(61.5)
Changes in assumptions underlying the present value of scheme liabilities	**(685.6)**	170.3	(1,155.5)	272.0	1,089.5
Actuarial (losses)/gains recognised in equity	**(189.9)**	286.0	(251.6)	(927.1)	605.4
Fair value of scheme assets	**6,186.4**	5,398.1	4,948.6	3,977.0	5,045.5
Present value of scheme liabilities	**(6,095.1)**	(5,215.5)	(5,298.6)	(4,112.4)	(4,542.3)
Pension scheme asset/(deficit)	**91.3**	182.6	(350.0)	(135.4)	503.2

12 Marks & Spencer UK Pension Scheme interest in the Scottish Limited Partnership

Marks and Spencer plc is a general partner and the Marks & Spencer UK Pension Scheme is a limited partner of the Marks and Spencer Scottish Limited Partnership. As such, the partnership is consolidated into the results of the Group.

The Marks and Spencer Scottish Limited Partnership holds £1.5bn of properties which have been leased back to Marks and Spencer plc at market rates. The Group retains control over these properties, including the flexibility to substitute alternative properties. The limited partnership interest (held by the Marks & Spencer UK Pension Scheme) entitles the Pension Scheme to receive an annual distribution of £71.9m from the profits of the Partnership earned from rental income, discretionary at the instance of Marks and Spencer plc.

The discretionary right is exercisable if the Group does not pay a dividend or make any other form of return to its shareholders. This is an equity instrument, disclosed within other reserves. Since the Group has paid an interim dividend in relation to 2011/12, the associated distribution of £71.9m is payable to the Pension Scheme and has been recognised as a liability (last year £71.9m), and is reflected as reduction in other reserves. When such reserves are no longer sufficient, this distribution will be charged to retained earnings. The future value of total discretionary scheduled payments is approximately £719m (last year £791m).

Under IAS 19, the partnership interest of the Pension Scheme in the Marks and Spencer Scottish Limited Partnership is included within the UK pension scheme assets, valued at £664.8m (last year £656.0m). For further details see note 11. The market value of this non-quoted financial asset is measured based on the expected cash flows and benchmark asset-backed credit spreads.

As general partner, Marks and Spencer plc has a right of pre-emption in respect of a transfer by the Pension Scheme of its limited partnership interest to another party. This allows the general partner to direct that, instead of transferring the limited partnership interest to such a party, the general partner can instead nominate the transferee. In addition, the partnership agreement includes a clause such that, following a default event (including the appointment of an administrator, liquidator, receiver or similar officer in respect of Marks and Spencer plc or Marks and Spencer Group plc) or on a relevant change of law, the net present value of the outstanding distributions becomes payable to the Pension Scheme by the Scottish Limited Partnership at the option of the Pension Scheme. On the basis of the expected cash flows associated with such an event, the related financial liability has been fair valued at £nil.

On 21 May 2012 the terms of the Scottish Limited Partnership were changed. See note 29.

13 Share-based payments

The charge for share-based payments for the year was £32.5m (last year £31.7m). Of the total share-based payments charge, £15.0m (last year £11.4m) relates to the Save As You Earn Share Option scheme. The remaining charge is spread over the other schemes. Further details of the option and share schemes that the Group operates are provided in the Remuneration report on pages 59 to 60.

A. Save As You Earn Share Option Scheme

Under the terms of the scheme, the Board may offer options to purchase ordinary shares in the Company once in each financial year to those employees who enter into an HM Revenue & Customs (HMRC) approved Save As You Earn (SAYE) savings contract. HMRC rules limit the maximum amount saved to £250 per month. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six month period after the completion of the SAYE contract, either three or five years after entering the scheme.

	2012		2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the year	**54,295,921**	**249.9p**	52,560,561	249.9p
Granted	**18,366,990**	**258.0p**	8,162,499	319.0p
Exercised	**(19,345,308)**	**205.6p**	(1,210,770)	324.7p
Forfeited	**(4,327,447)**	**285.6p**	(3,755,659)	266.4p
Expired	**(1,744,814)**	**481.8p**	(1,460,710)	530.6p
Outstanding at end of the year	**47,245,342**	**259.3p**	54,295,921	249.9p
Exercisable at end of year	**2,803,103**	**278.9p**	2,150,364	446.6p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 325.0p (last year 366.3p).

Notes to the financial statements continued

13 Share-based payments continued

The fair values of the options granted during the year have been calculated using the Black-Scholes model assuming the inputs shown below:

	2012 3-year plan	2011 3-year plan
Grant date	**Nov 11**	Nov 10
Share price at grant date	**322p**	399p
Exercise price	**258p**	319p
Option life in years	**3 years**	3 years
Risk-free rate	**0.5%**	1.5%
Expected volatility	**31.4%**	44.5%
Expected dividend yield	**5.4%**	4.0%
Fair value of option	**67p**	125p

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 15% of options will lapse over the service period as employees leave the Group.

Outstanding options granted under the UK Employees' SAYE Scheme are as follows:

	Number of options		Weighted average remaining contractual life (years)		
Options granted	2012	2011	2012	2011	Option price
January 2006	**–**	538,403	**–**	0.2	349p
January 2007	**583,961**	630,926	**0.2**	1.2	559p
January 2008	**655,213**	2,178,087	**1.2**	0.9	517p
January 2009	**15,727,797**	35,826,944	**1.9**	2.0	203p
January 2010	**6,349,388**	7,253,289	**1.2**	2.2	292p
January 2011	**6,016,473**	7,868,272	**2.2**	3.2	319p
January 2012	**17,912,510**	–	**3.2**	–	258p
	47,245,342	54,295,921	**2.3**	2.2	259p

B. Performance Share Plan*

The Performance Share Plan is the primary long-term incentive plan for approximately 100 of the most senior managers and was first approved by shareholders in 2005. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which the awards vest is based on adjusted (underlying basic) earnings per share growth over three years. The value of any dividends earned on the vested shares during the three years will also be paid on vesting. Further details are set out in the Remuneration report on page 59. Awards under this scheme have been made in each year since 2005.

During the year, 7,887,169 shares (last year 7,788,119) were awarded under the plan. The weighted average fair value of the shares awarded was 350.8p (last year 342.2p).

C. Deferred Share Bonus Plan*

The Deferred Share Bonus Plan was introduced in 2005/06 as part of the Annual Bonus Scheme for approximately 450 of the most senior managers. As part of the scheme, the managers are required to defer a proportion of any bonus paid into shares which will be held for three years. There are no further performance conditions on these shares, other than continued employment, and the value of any dividends earned during the deferred period will be paid on vesting.

During the year, 2,366,847 shares (last year 4,982,573) have been awarded under the Plan in relation to the annual bonus. The fair value of the shares awarded was 378.4p (last year 341.2p). As at 31 March 2012, 6,396,018 shares (last year 4,948,663) were outstanding under the scheme.

D. Restricted Share Plan*

The Restricted Share Plan was established in 2000 as part of the reward strategy for retention and recruitment of senior managers who are vital to the success of the business. The Plan operates for senior managers below executive director level. Awards under the Plan are made as part of ongoing reviews of reward packages, and for recruitment. The shares are held in trust for a period of between one and three years, at which point they are released to the employee, subject to them still being in employment. The value of any dividends earned during the restricted period will also be paid at the time of vesting.

During the year, 1,356,046 shares (last year 651,000) have been awarded under the Plan. The weighted average fair value of the shares awarded was 356.9p (last year 355.2p).

* **Nil cost options**
For the purposes of calculating the number of nil cost options awarded, the share price used is the average of the mid-market price for the five consecutive dealing days preceding the grant date.

13 Share-based payments continued

E. Republic of Ireland Save As You Earn Scheme

Sharesave, the Company's Save As You Earn Scheme was introduced in 2009 to all employees in the Republic of Ireland for a ten year period, after approval by shareholders at the 2009 AGM. The scheme is subject to Irish Revenue rules which limit the maximum monthly saving to €500 per month. The Company chose in 2009 to set a monthly savings cap of €320 per month to align the maximum savings amount allowed within the UK scheme. When the savings contract is started, options are granted to acquire the number of shares that the total savings will buy when the contract matures, at a discounted price set at the start of the scheme. The price at which the options may be offered is 80% of the average mid-market price for three consecutive days preceding the offer date. Options cannot normally be exercised until a minimum of three years has elapsed.

During the year, 97,270 (last year 147,100) options were granted, at a fair value of 67.3p (last year 124.9p).

F. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the Trust) holds 10,621,823 shares (last year 8,851,592) with a book value of £34.4m (last year £27.6m) and a market value of £40.2m (last year £29.8m). These shares were acquired by the Trust in the market and are shown as a reduction in retained earnings in the consolidated statement of financial position. The Trust used funds provided by Marks and Spencer plc to meet the Group's obligations. Awards are granted to employees at the discretion of Marks and Spencer plc and shares awarded to employees by the Trust in accordance with the wishes of Marks and Spencer plc under senior executive share schemes. Dividends are waived on all of these plans except for the Deferred Bonus Share Plan and Restricted Share Plan where dividends are paid via a Dividend Reinvestment Plan for awards made in the form of forfeitable shares.

Notes to the financial statements continued

14 Intangible assets

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 3 April 2010					
Cost or valuation	127.9	80.0	239.2	120.0	567.1
Accumulated amortisation	–	(29.3)	(85.0)	–	(114.3)
Net book value	127.9	50.7	154.2	120.0	452.8
Year ended 2 April 2011					
Opening net book value	127.9	50.7	154.2	120.0	452.8
Additions	–	–	83.4	43.1	126.5
Transfers	–	–	104.9	(104.9)	–
Disposals	–	–	(0.3)	–	(0.3)
Amortisation charge	–	(5.3)	(45.7)	–	(51.0)
Exchange difference	(0.3)	–	–	–	(0.3)
Closing net book value	127.6	45.4	296.5	58.2	527.7
At 2 April 2011					
Cost or valuation	127.6	80.0	427.1	58.2	692.9
Accumulated amortisation	–	(34.6)	(130.6)	–	(165.2)
Net book value	127.6	45.4	296.5	58.2	527.7
Year ended 31 March 2012					
Opening net book value	**127.6**	**45.4**	**296.5**	**58.2**	**527.7**
Additions	**–**	**32.4**	**72.9**	**52.9**	**158.2**
Transfers	**–**	**–**	**37.0**	**(37.0)**	**–**
Disposals	**–**	**–**	**(1.0)**	**–**	**(1.0)**
Impairment	**(34.4)**	**–**	**–**	**–**	**(34.4)**
Amortisation charge	**–**	**(5.3)**	**(60.0)**	**–**	**(65.3)**
Exchange difference	**(0.6)**	**–**	**(0.3)**	**–**	**(0.9)**
Closing net book value	**92.6**	**72.5**	**345.1**	**74.1**	**584.3**
At 31 March 2012					
Cost	**127.0**	**112.4**	**535.4**	**74.1**	**848.9**
Accumulated amortisation and impairment	**(34.4)**	**(39.9)**	**(190.3)**	**–**	**(264.6)**
Net book value	**92.6**	**72.5**	**345.1**	**74.1**	**584.3**

Goodwill relates to the following business units:

	per una £m	Marks and Spencer Marinopoulos B.V. £m	Marks and Spencer Czech Republic a.s. £m	Supreme Tradelinks Private Limited £m	Total £m
Cost and net book value at 2 April 2011	**69.5**	**34.4**	**15.5**	**8.2**	**127.6**
Impairment	**–**	**(34.4)**	**–**	**–**	**(34.4)**
Exchange difference	**–**	**–**	**(0.1)**	**(0.5)**	**(0.6)**
Cost and net book value at 31 March 2012	**69.5**	**–**	**15.4**	**7.7**	**92.6**

Goodwill is not amortised, but tested annually for impairment with the recoverable amount being determined from value in use calculations. Goodwill has been allocated for impairment testing purposes to groups of cash-generating units (CGUs) which include the combined retail and wholesale businesses. The key assumptions for the recoverable amount of all units are the long-term growth rate and the discount rate. The long-term growth rate used is purely for the impairment testing of goodwill under IAS 36 – 'Impairment of Assets' and does not reflect long-term planning assumptions used by the Group for investment proposals or for any other assessments. The pre-tax discount rate is based on the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made: per una discount rate 10.6% (last year 9.9%), Marks and Spencer Marinopoulos B.V. 16.2% (last year 17.7%), Marks and Spencer Czech Republic a.s. 12.3% (last year 11.9%) and Supreme Tradelinks Private Limited 12.7% (last year 13.3%).

The valuations use cash flows based on detailed financial budgets prepared by management covering a three year period. Cash flows beyond this three year period are extrapolated for Marks and Spencer Czech Republic a.s. at a growth rate of 1.5% (last year 2.0%) and Supreme Tradelinks Private Limited at a growth rate of 1.5% (last year 2.0%). To stress test, nil growth has been assumed for per una and Marks and Spencer Marinopoulos B.V. These rates do not exceed the long-term average growth rate for the Group's retail businesses.

14 Intangible assets continued

Based on the above assumptions and due to the current economic environment in Greece and neighbouring countries, the Marks and Spencer Marinopoulos B.V. goodwill has been impaired in full giving rise to a charge of £34.4m. This loss has been recognised within selling and administration expenses in the Income statement. No other goodwill impairment charges have been recognised in 2011/12 (last year £nil).

If a zero per cent growth rate is assumed or the discount rate is increased by a pre-tax rate of 2.0%, per una, Marks and Spencer Czech Republic a.s. and Supreme Tradelinks Private Limited goodwill would not be impaired.

Brands consist of the per una brand cost of £80.0m and the M&S Mode brands which were purchased on 2 May 2011 for £32.4m. The per una brand is a definite life intangible asset and is amortised on a straight line basis over a period of 15 years and is only assessed for impairment where such indicators exist. The M&S Mode brands have been attributed an indefinite life as they give the Group the future right to use the 'M&S' brand across Europe. This is consistent with the Group's expansion plans in Europe and existing M&S brand recognition from its current presence. Similar to goodwill, the M&S Mode brands are assessed for impairment annually based on their value in use. The M&S Mode brands have been allocated for impairment testing across the European business. No brand impairment charge has been recognised in 2011/12.

15 Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 3 April 2010				
Cost	2,576.4	5,043.9	121.2	7,741.5
Accumulated depreciation	(118.7)	(2,900.8)	–	(3,019.5)
Net book value	2,457.7	2,143.1	121.2	4,722.0
Year ended 2 April 2011				
Opening net book value	2,457.7	2,143.1	121.2	4,722.0
Additions	23.1	173.1	168.8	365.0
Transfers	22.4	66.7	(89.1)	–
Disposals	(1.4)	(1.3)	–	(2.7)
Asset write-offs	–	(3.4)	–	(3.4)
Depreciation charge	(15.7)	(400.8)	–	(416.5)
Exchange difference	(0.1)	(2.1)	–	(2.2)
Closing net book value	2,486.0	1,975.3	200.9	4,662.2
At 2 April 2011				
Cost	2,730.0	5,263.2	200.9	8,194.1
Accumulated depreciation	(244.0)	(3,287.9)	–	(3,531.9)
Net book value	2,486.0	1,975.3	200.9	4,662.2
Year ended 31 March 2012				
Opening net book value	**2,486.0**	**1,975.3**	**200.9**	**4,662.2**
Additions	**17.1**	**279.5**	**282.7**	**579.3**
Transfers	**25.3**	**127.9**	**(153.2)**	**–**
Disposals	**(0.8)**	**(6.8)**	**–**	**(7.6)**
Asset write-offs	**(13.0)**	**(10.4)**	**–**	**(23.4)**
Depreciation charge	**(16.4)**	**(388.4)**	**–**	**(404.8)**
Exchange difference	**(9.4)**	**(6.1)**	**(0.3)**	**(15.8)**
Closing net book value	**2,488.8**	**1,971.0**	**330.1**	**4,789.9**
At 31 March 2012				
Cost	**2,759.4**	**5,612.9**	**330.1**	**8,702.4**
Accumulated depreciation	**(270.6)**	**(3,641.9)**	**–**	**(3,912.5)**
Net book value	**2,488.8**	**1,971.0**	**330.1**	**4,789.9**

The net book value above includes land and buildings of £43.6m (last year £44.3m) and equipment of £26.4m (last year £31.8m) where the Group is a lessee under a finance lease.

Additions to property, plant and equipment during the year amounting to £6.0m (last year £nil) were financed by new finance leases.

Notes to the financial statements continued

16 Other financial assets

	2012 £m	2011 £m
Non-current		
Unlisted investments	3.0	3.0
Current		
Short-term investments[1]	254.4	209.4
Unlisted investments	6.1	6.5
	260.5	215.9

1 Includes £179.4m (last year £148.9m) and £49.2m (last year £44.2m) of money market deposits held by the Marks and Spencer Scottish Limited Partnership and Marks and Spencer plc respectively. All short term investments are measured using Level 2 valuation techniques.

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

	2012 £m	2011 £m
Non-current		
Other receivables	33.8	35.2
Prepayments and accrued income	236.4	240.9
	270.2	276.1
Current		
Trade receivables	115.8	99.6
Less: Provision for impairment of receivables	(1.2)	(1.3)
Trade receivables – net	114.6	98.3
Other receivables	23.9	25.5
Prepayments and accrued income	114.5	126.5
	253.0	250.3

Trade receivables that were past due but not impaired amounted to £2.5m (last year £2.4m) and are mainly sterling denominated. The directors consider that the carrying amount of trade and other receivables approximates their fair value.

18 Cash and cash equivalents

Cash and cash equivalents are £196.1m (last year £470.2m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.36% (last year 0.40%). These deposits have an average maturity of four days (last year nine days).

19 Trade and other payables

	2012 £m	2011 £m
Current		
Trade and other payables	988.6	919.2
Social security and other taxes	71.5	57.2
Accruals and deferred income	389.0	371.2
	1,449.1	1,347.6
Non-current		
Other payables[1]	280.8	262.3

1 Includes the fair value of the put option over the 49% non-controlling interest in the share capital of Marks and Spencer Czech Republic a.s. of £nil (last year £14.6m) exercisable on 4 April 2013, and the fair value of the put option over the 20% non-controlling interest in the share capital of Marks and Spencer Greece S.A. of £nil exercisable in five or ten years time.

20 Borrowings and other financial liabilities

	2012 £m	2011 £m
Current		
Bank loans and overdrafts[1]	**38.4**	274.8
6.375% £308m medium-term notes 2011[2]	**–**	315.1
5.875% £267m medium-term notes 2012[2]	**280.6**	–
Finance lease liabilities	**8.7**	12.4
	327.7	602.3
Non-current		
Bank loans	**0.3**	14.3
5.875% £267m medium-term notes 2012[2]	**–**	280.2
5.625% £400m medium-term notes 2014[2]	**399.9**	399.7
6.250% US$500m medium-term notes 2017[3]	**317.8**	316.8
6.125% £400m medium-term notes 2019[2]	**428.5**	404.7
6.125% £300m medium-term notes 2021[2]	**301.6**	–
7.125% US$300m medium-term notes 2037[3]	**189.9**	189.3
6.875% £250m puttable callable reset medium-term notes 2037[2,4]	**253.3**	253.2
Finance lease liabilities	**56.8**	65.9
	1,948.1	1,924.1
Total	**2,275.8**	2,526.4

1 Bank loans and overdrafts includes a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see note 28).
2 These notes are issued under Marks and Spencer plc's £3bn European medium-term note programme and all pay interest annually.
3 Interest on these bonds is payable semi-annually.
4 These notes include an investor put and issuer call option exercisable in December 2012.

Finance leases

The minimum lease payments under finance leases fall due as shown in the table on the following page. It is the Group's policy to lease certain of its properties and equipment under finance leases. The average lease term for equipment is five years (last year six years) and 125 years (last year 125 years) for property. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

21 Financial instruments

Treasury policy

The Group operates a centralised treasury function to manage the Group's funding requirements and financial risks in line with the Board approved treasury policies and procedures, and their delegated authorities.

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items, such as trade receivables and trade payables, that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations.

The Group treasury function also enters into derivative transactions, principally interest rate and currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and currency risks arising from the Group's operations and financing.

It remains the Group's policy not to hold or issue financial instruments for trading purposes, except where financial constraints necessitate the need to liquidate any outstanding investments. The treasury function is managed as a cost centre and does not engage in speculative trading.

Notes to the financial statements continued

21 Financial instruments continued

Financial risk management

The principal financial risks faced by the Group are liquidity/funding, interest rate, foreign currency and counterparty risks. The policies and strategies for managing these risks are summarised on the following pages:

(a) Liquidity/funding risk

The risk that the Group could be unable to settle or meet its obligations at a reasonable price as they fall due;

- The Group's funding strategy ensures a mix of funding sources offering flexibility and cost effectiveness to match the requirements of the Group.
- Operating subsidiaries are financed by a combination of retained profits, bank borrowings, medium-term notes and committed syndicated bank facilities.

At year end, the Group had a committed syndicated bank revolving credit facility of £1.325bn set to mature on 29 September 2016. This facility contains only one financial covenant being the ratio of earnings before interest, tax, depreciation, amortisation and rents payable; to interest plus rents payable. The covenant is measured semi-annually. The Group also has a number of undrawn uncommitted facilities available to it. At year end, these amounted to £105m (last year £105m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £nil (last year £nil) was drawn under the committed facilities and £nil (last year £nil) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Group has a euro medium-term note programme of £3bn, of which £1.6bn (last year £1.6bn) was in issuance as at the balance sheet date.

The 6.375% £308m bond was repaid in November 2011 and a new 6.125% £300m bond was subsequently issued under the programme in December 2011 maturing in 2021.

The contractual maturity of the Group's non-derivative financial liabilities and derivatives is as follows:

	Bank loans and overdrafts £m	Syndicated bank facility £m	Medium-term notes £m	Finance lease liabilities £m	Total £m	Derivative assets £m	Derivative liabilities £m	Total £m
Timing of cash flows								
Within one year	(274.8)	–	(439.9)	(16.0)	(730.7)	1,389.3	(1,418.6)	(29.3)
Between one and two years	(14.3)	–	(380.1)	(11.7)	(406.1)	96.5	(92.7)	3.8
Between two and five years	–	–	(650.9)	(15.8)	(666.7)	100.7	(103.7)	(3.0)
More than five years	–	–	(1,992.8)	(195.8)	(2,188.6)	830.2	(883.4)	(53.2)
	(289.1)	–	(3,463.7)	(239.3)	(3,992.1)	2,416.7	(2,498.4)	(81.7)
Effect of discounting and foreign exchange	–	–	1,304.7	161.0	1,465.7			
At 2 April 2011	(289.1)	–	(2,159.0)	(78.3)	(2,526.4)			
Timing of cash flows								
Within one year	**(38.4)**	**–**	**(398.5)**	**(11.8)**	**(448.7)**	**1,540.1**	**(1,529.4)**	**10.7**
Between one and two years	**(0.3)**	**–**	**(517.1)**	**(8.8)**	**(526.2)**	**163.6**	**(161.9)**	**1.7**
Between two and five years	**–**	**–**	**(283.8)**	**(9.2)**	**(293.0)**	**110.5**	**(103.3)**	**7.2**
More than five years	**–**	**–**	**(2,310.9)**	**(192.1)**	**(2,503.0)**	**804.6**	**(841.8)**	**(37.2)**
	(38.7)	**–**	**(3,510.3)**	**(221.9)**	**(3,770.9)**	**2,618.8**	**(2,636.4)**	**(17.6)**
Effect of discounting and foreign exchange	**–**	**–**	**1,338.7**	**156.4**	**1,495.1**			
At 31 March 2012	**(38.7)**	**–**	**(2,171.6)**	**(65.5)**	**(2,275.8)**			

This table does not include trade and other payables (see note 19) due to the low associated liquidity risk and the partnership liability to the Marks & Spencer UK Pension Scheme (see note 12).

The present value of finance lease liabilities is as follows:

	2012 £m	2011 £m
Within one year	**(8.7)**	(12.4)
Later than one year and not later than five years	**(8.7)**	(17.3)
Later than five years	**(48.1)**	(48.6)
Total	**(65.5)**	(78.3)

(b) Counterparty risk

Counterparty risk exists where the Group can suffer financial loss through default or non-performance by financial institutions.

Exposures are managed through Group treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The counterparties are limited to the approved institutions with secure long-term credit ratings A+/A1 or better, assigned by Moody's and Standard & Poor's respectively, unless approved by exception by the CFO. Limits are reviewed regularly by senior management. The credit risk of these financial instruments is estimated as the fair value of the assets resulting from the contracts.

21 Financial instruments continued

The table below analyses the Group's short-term investments and derivative assets by credit exposure excluding bank balances, store cash and cash in transit.

	Credit rating of counterparty[4]							
	AAAm £m	AAA £m	AA £m	AA- £m	A+ £m	A- £m	A[3] £m	Total
Short-term investments[1]	193.1	17.0	54.3	19.1	79.1	–	–	362.6
Derivative assets[2]	–	0.2	0.5	–	4.0	–	0.8	5.5
At 2 April 2011	193.1	17.2	54.8	19.1	83.1	–	0.8	368.1

	AAAm £m	AAA £m	AA £m	AA- £m	A+ £m	A- £m	A[3] £m	Total
Short-term investments[1]	**198.5**	**–**	**2.0**	**42.8**	**27.1**	**20.0**	**–**	**290.4**
Derivative assets[2]	**–**	**–**	**1.9**	**9.8**	**–**	**18.2**	**7.6**	**37.5**
At 31 March 2012	**198.5**	**–**	**3.9**	**52.6**	**27.1**	**38.2**	**7.6**	**327.9**

1 Includes cash on deposit and money market funds held by Marks and Spencer Scottish Limited Partnership, Marks & Spencer plc and M.S. General Insurance LP.
2 Excludes derivative asset option which is embedded within the £250m puttable callable reset medium-term notes due 2037 and the embedded derivative within the lease host contract.
3 Exposure to a counterparty approved as an exception to treasury policy.
4 Standard & Poor's equivalent rating shown as reference to the lowest credit rating of the counterparty from either Standard & Poor's or Moody's.

The Group has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity.

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £115m (last year £98m), other receivables £58m (last year £61m), cash and cash equivalents £196m (last year £470m) and derivatives £111m (last year £40m).

(c) Foreign currency risk

Transactional foreign currency exposures arise from both the export of goods from the UK to overseas subsidiaries, and from the import of materials and goods directly sourced from overseas suppliers.

Group treasury hedges these exposures principally using forward foreign exchange contracts progressively covering up to 100% out to 18 months. Where appropriate, hedge cover can be taken out longer than 18 months, with Board approval. The Group is primarily exposed to foreign exchange risk in relation to sterling against movements in US dollar and euro.

Forward foreign exchange contracts in relation to the Group's forecast currency requirements are designated as cash flow hedges with fair value movements recognised directly in comprehensive income. To the extent that these hedges cover actual currency payables or receivables, then associated fair value movements previously recognised in comprehensive income are recorded in the income statement in conjunction with the corresponding asset or liability. As at the balance sheet date the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £1,221m (last year £1,062m) with a weighted average maturity date of seven months (last year six months).

Gains and losses in equity on forward foreign exchange contracts as at 31 March 2012 will be released to the income statement at various dates over the following 15 months (last year 14 months) from the balance sheet date.

The Group uses a combination of foreign currency debt and derivatives to hedge balance sheet translation exposures. As at the balance sheet date €242m (last year €201m) and HK$291m (last year HK$192m) of derivatives was hedging overseas net assets.

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance results in an overall £nil impact on the income statement. As at the balance sheet date, the gross notional value of intercompany loan hedges was £187m (last year £175m).

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, the liability to the Marks & Spencer UK Pension Scheme and the Marks and Spencer Czech Republic a.s. put option, is set out below:

			2012			2011
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	**2,030.4**	**205.2**	**2,235.6**	2,030.1	411.8	2,441.9
Euro	**6.8**	**5.1**	**11.9**	7.1	33.7	40.8
Hong Kong dollar	**–**	**–**	**–**	–	–	–
Other	**–**	**28.3**	**28.3**	–	43.7	43.7
	2,037.2	**238.6**	**2,275.8**	2,037.2	489.2	2,526.4

Notes to the financial statements continued

21 Financial instruments continued

The floating rate sterling and euro borrowings are linked to interest rates related to LIBOR. These rates are for periods between one and three months.

As at the balance sheet date and excluding finance leases, the fixed rate sterling borrowings are at an average rate of 5.8% (last year 5.9%) and the weighted average time for which the rate is fixed is nine years (last year nine years).

(d) Interest rate risk

The Group is exposed to interest rate risk in relation to sterling, US dollar, euro and Hong Kong dollar variable rate financial assets and liabilities.

The Group's policy is to use derivative contracts where necessary to maintain a mix of fixed and floating rate borrowings to manage this risk. The structure and maturity of these derivatives correspond to the underlying borrowings and are accounted for as fair value or cash flow hedges as appropriate.

At the balance sheet date, fixed rate borrowings amounted to £2,037.2m (last year £2,037.2m) representing the public bond issues and finance leases, amounting to 90% (last year 81%) of the Group's gross borrowings.

The effective interest rates at the balance sheet date were as follows:

	2012 %	2011 %
Committed and uncommitted borrowings	0.5	–
Medium-term notes	5.8	5.9
Finance leases	4.5	4.6

Derivative financial instruments

		2012		2011	
		Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current					
Options	– held for trading	53.6	(53.6)	14.4	(14.4)
Forward foreign exchange contracts	– cash flow hedges	13.3	(5.1)	2.8	(29.9)
	– held for trading	0.1	(1.3)	1.2	(2.4)
	– net investment hedges	–	(0.5)	–	(2.7)
Interest rate swaps	– held for trading	–	–	–	(1.3)
		67.0	(60.5)	18.4	(50.7)
Non-current					
Cross currency swaps	– cash flow hedges	–	(26.5)	–	(37.5)
Forward foreign exchange contracts	– cash flow hedges	0.1	(0.7)	0.7	–
Interest rate swaps	– fair value hedge	24.0	–	0.8	–
Embedded derivative (see note 5)		20.1	–	20.3	–
		44.2	(27.2)	21.8	(37.5)

The amounts reported as options held for trading in derivatives assets and liabilities represent the fair value of the call option with the puttable callable reset notes mirrored by the fair value of the sold option to have this call assigned. The Group 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 Group also holds a number of cross currency swaps to re-designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges.

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 rates and a 20% +/- (last year 20%) weakening in sterling represents a reasonable possible change. However this analysis is for illustrative purposes only.

The impact in the income statement due to changes in interest rates reflects the effect on the Group's floating rate debt as at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Group's cross currency swaps.

The impact from foreign exchange movements reflects the change in the fair value of the Group's transactional foreign exchange cash flow hedges and the net investment hedges at the balance sheet date. The equity impact shown for foreign exchange sensitivity relates to derivative and non-derivative financial instruments hedging net investments. This value is expected to be fully offset by the re-translation of the hedged foreign currency net assets leaving a net equity impact of zero.

The table excludes financial instruments that expose the Group to interest rate and foreign exchange risk where such risk is fully hedged with another financial instrument. Also excluded are trade receivables and payables as these are either sterling denominated or the foreign exchange risk is hedged.

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 2 April 2011				
Impact on income statement: gain/(loss)	0.5	2.2	(2.8)	2.4
Impact on other comprehensive income: (loss)/gain	(6.7)	6.4	44.3	(29.5)
At 31 March 2012				
Impact on income statement: gain	**1.5**	**0.8**	**–**	**–**
Impact on other comprehensive income: (loss)/gain	**(5.3)**	**3.0**	**70.2**	**(46.8)**

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. Unlisted equity investments are included in Level 3. The fair value of embedded derivatives is determined using the present value of the estimated future cash flows based on financial forecasts. The nature of the valuation techniques and the judgement around the inputs mean that a change in assumptions could result in significant change in the fair value of the instrument.

As at the end of the reporting period, the Group held the following financial instruments measured at fair value:

	2012				2011			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit and loss								
– Trading derivatives	**–**	**53.7**	**–**	**53.7**	–	15.6	–	15.6
Derivatives used for hedging	**–**	**37.4**	**–**	**37.4**	–	4.3	–	4.3
Embedded derivatives (note 5)	**–**	**–**	**20.1**	**20.1**	–	–	20.3	20.3
Available-for-sale financial assets								
– equity securities	**–**	**–**	**3.0**	**3.0**	–	–	3.0	3.0
Liabilities measured at fair value								
Financial liabilities at fair value through profit and loss								
– Trading derivatives	**–**	**(54.9)**	**–**	**(54.9)**	–	(18.1)	–	(18.1)
Derivative used for hedging	**–**	**(32.8)**	**–**	**(32.8)**	–	(70.1)	–	(70.1)
Put option over non-controlling interest	**–**	**–**	**–**	**–**	–	–	(14.6)	(14.6)

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements in the current or prior years.

Notes to the financial statements continued

21 Financial instruments continued

The following table presents the changes in Level 3 instruments:

	2012 £m	2011 £m
Opening balance	8.7	(60.5)
Additions (see note 5)	–	20.3
Gains and losses recognised in the income statement	14.4	48.9
Closing balance	23.1	8.7

The gains recognised in the income statement relate to the valuation of the put option over a non-controlling interest and the valuation of the embedded derivative in a lease contract. A discount unwind on the put option of £1.0m (last year £5.4m) has been recorded within underlying interest charges, with the fair value movement of the put option of £15.6m (last year £54.3m) and the fair value movement of the embedded derivative of £0.2m treated as adjustment to reported profit (see note 5).

Fair value of financial instruments

With the exception of the Group's fixed rate bond debt, there were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

The carrying value of the Group's fixed rate bond debt was £2,171.6m (last year £2,159.0m); the fair value of this debt was £2,121.7m (last year £2,080.1m).

Capital policy

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide optimal returns for shareholders and to maintain an efficient capital structure to reduce the cost of capital.

In doing so the Group's strategy is to maintain a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt (see note 27) and fixed charge cover to maintain this position. In addition, the Group ensures a combination of appropriate committed short-term liquidity headroom with a diverse and balanced long-term debt maturity profile. As at the balance sheet date the Group's average debt maturity profile was nine years (last year nine years). During the year the Group maintained an investment grade credit rating of Baa3 (stable) with Moody's and BBB- (stable) with Standard & Poor's.

In order to maintain or realign the capital structure, the Group may adjust the number of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

22 Provisions

	2012 £m	2011 £m
At start of year	44.7	51.1
Provided in the year	7.8	10.8
Released in the year	(3.4)	(1.7)
Utilised during the year	(16.5)	(15.4)
Exchange differences	(0.2)	(0.1)
At end of year	32.4	44.7
Analysis of provisions:		
Current	8.4	22.7
Non-current	24.0	22.0
Total provisions	32.4	44.7

The provisions primarily comprise one-off strategic programme costs associated with the Focus on the UK plans as well as onerous lease provisions relating to the 2008/09 UK restructuring.

The current element of the provision primarily relates to onerous leases, redundancies and strategic costs.

The non-current element of the provision relates to store closures, primarily onerous leases, and is expected to be utilised over a period of ten years.

23 Deferred tax

Deferred tax is provided under the balance sheet liability method using a tax rate of 24% (last year 26%) for UK differences and local tax rates for overseas differences. Details of the changes to the UK corporation tax rate and the impact on the Group are described in note 7.

The movements in deferred tax assets and liabilities (after offsetting balances within the same jurisdiction as permitted by IAS 12 – 'Income Taxes') during the year are shown below.

Deferred tax (liabilities)/assets

	Non-current assets temporary differences £m	Accelerated capital allowances £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 4 April 2010	(74.3)	(123.7)	81.2	(3.2)	(120.0)	(5.8)	(125.8)
Credited/(charged) to the income statement	10.5	18.9	3.0	7.1	39.5	(3.2)	36.3
(Charged)/credited to equity	–	–	(112.0)	6.1	(105.9)	(1.1)	(107.0)
At 2 April 2011	(63.8)	(104.8)	(27.8)	10.0	(186.4)	(10.1)	(196.5)
At 3 April 2011	**(63.8)**	**(104.8)**	**(27.8)**	**10.0**	**(186.4)**	**(10.1)**	**(196.5)**
Credited/(charged) to the income statement	**5.6**	**4.2**	**4.4**	**(2.9)**	**11.3**	**(1.5)**	**9.8**
(Charged)/credited to equity	**–**	**–**	**(5.1)**	**(0.6)**	**(5.7)**	**(3.3)**	**(9.0)**
At 31 March 2012	**(58.2)**	**(100.6)**	**(28.5)**	**6.5**	**(180.8)**	**(14.9)**	**(195.7)**

The deferred tax liability on non-current assets is stated net of the benefit of capital losses with a tax value of £71.4m (last year £65.0m). No benefit has been recognised in respect of unexpired trading losses carried forward in overseas jurisdictions with a tax value of £26.8m (last year £16.1m).

In addition, the Group is claiming UK tax relief for losses incurred by some of its current and former European subsidiaries. In light of the continuing litigation no asset has been recognised in respect of these claims.

No deferred tax has been recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures, as no material liability is expected to arise on distribution of these earnings under applicable tax legislation.

24 Ordinary share capital

	2012 Shares	2012 £m	2011 Shares	2011 £m
Issued and fully paid ordinary shares of 25p each				
At start of year	**1,584,863,882**	**396.2**	1,582,316,581	395.5
Shares issued on exercise of share options	**20,643,220**	**5.2**	2,547,301	0.7
At end of year	**1,605,507,102**	**401.4**	1,584,863,882	396.2

Issue of new shares

20,643,220 (last year 2,547,301) ordinary shares having a nominal value of £5.2m (last year £0.7m) were allotted during the year under the terms of the Company's schemes which are described in note 13. The aggregate consideration received was £44.3m (last year £8.4m).

Notes to the financial statements continued

25 Contingencies and commitments

A. Capital commitments

	2012 £m	2011 £m
Commitments in respect of properties in the course of construction	71.4	90.8

In respect of its interest in a joint venture, the Group is committed to incur capital expenditure of £nil (last year £0.5m).

B. Other material contracts

In the event of a material change in the trading arrangements with certain warehouse operators, the Group has a commitment to purchase property, plant and equipment, at values ranging from historical net book value to market value, which are currently owned and operated by the warehouse operators on the Group's behalf.

See note 12 for details on the partnership arrangement with the Marks & Spencer UK Pension Scheme.

C. Commitments under operating leases

The Group leases various stores, offices, warehouses and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

	2012 £m	2011 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	257.8	242.6
Later than one year and not later than five years	997.4	923.0
Later than five years and not later than ten years	1,029.5	990.8
Later than ten years and not later than 15 years	772.7	767.4
Later than 15 years and not later than 20 years	385.1	402.9
Later than 20 years and not later than 25 years	259.3	243.1
Later than 25 years	1,210.1	1,210.3
Total	**4,911.9**	4,780.1

The total future sublease payments to be received are £63.3m (last year £65.8m).

26 Analysis of cash flows given in the statement of cash flows

Cash flows from operating activities

	2012 £m	2011 £m
Profit on ordinary activities after taxation	489.6	598.6
Income tax expense	168.4	182.0
Finance costs	136.8	152.9
Finance income	(48.3)	(96.6)
Operating profit	**746.5**	836.9
Increase in inventories	(0.1)	(72.1)
(Increase)/decrease in receivables	(17.1)	2.9
Payments to acquire leasehold properties	(1.2)	(1.4)
Increase in payables	103.4	175.2
Non-underlying operating cash outflows	(22.9)	(12.3)
Depreciation, amortisation and asset write-offs	479.7	467.5
Share-based payments	32.5	31.7
Pension costs charged against operating profit	57.7	60.0
Cash contributions to pension schemes	(89.9)	(91.2)
Non-underlying operating profit items (see note 5)	63.5	(12.0)
Cash generated from operations	**1,352.1**	1,385.2

Non-underlying operating cash outflows primarily relate to the utilisation of the provisions for UK restructuring and strategic programme costs.

27 Analysis of net debt

A. Reconciliation of movement in net debt

	At 3 April 2011 £m	Cash flow £m	Exchange and other non-cash movements £m	At 31 March 2012 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (note 20)	(289.1)	247.8	2.6	**(38.7)**
Less: amounts treated as financing (see below)	82.4	(41.4)	(2.6)	**38.4**
	(206.7)	206.4	–	**(0.3)**
Cash and cash equivalents (note 18)	470.2	(272.2)	(1.9)	**196.1**
Net cash per statement of cash flows	263.5	(65.8)	(1.9)	**195.8**
Current financial assets (see note 16)	215.9	44.8	(0.2)	**260.5**
Debt financing				
Bank loans and overdrafts treated as financing (see above)	(82.4)	41.4	2.6	**(38.4)**
Medium-term notes	(2,147.7)	12.1	(2.0)	**(2,137.6)**
Finance lease liabilities (note 20)	(78.3)	13.0	(0.2)	**(65.5)**
Partnership liability to the Marks & Spencer UK Pension Scheme (note 12)	(71.9)	71.9	(71.9)	**(71.9)**
Debt financing	(2,380.3)	138.4	(71.5)	**(2,313.4)**
Net debt	(1,900.9)	117.4	(73.6)	**(1,857.1)**

B. Reconciliation of net debt to statement of financial position

	2012 £m	2011 £m
Statement of financial position and related notes		
Cash and cash equivalents	**196.1**	470.2
Current financial assets (note 16)	**260.5**	215.9
Bank loans and overdrafts (note 20)	**(38.7)**	(289.1)
Medium-term notes – net of hedging derivatives	**(2,181.8)**	(2,194.0)
Finance lease liabilities (note 20)	**(65.5)**	(78.3)
Partnership liability to the Marks & Spencer UK Pension Scheme (note 12)	**(71.9)**	(71.9)
	(1,901.3)	(1,947.2)
Interest payable included within related borrowing	**44.2**	46.3
Total net debt	**(1,857.1)**	(1,900.9)

28 Related party transactions

A. Subsidiaries

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's separate financial statements.

On 30 March 2012 the Group acquired the remaining 50 per cent shareholding of Marks & Spencer Marinopoulos BV for €1, taking its share in the Balkan states (Greece, Romania, Croatia, Slovenia, Bulgaria, Serbia, and Montenegro) to 100 per cent.

At the same time, the Group sold 20 per cent of the share capital of Marks & Spencer Greece SA ('Greece') to Marinopolous Holding Sarl for €1, leaving the Group's effective share in Greece at 80 per cent. The sale and purchase agreement includes call and put options over this 20 per cent of the share capital of Greece, exercisable in five or ten years time. The fair value of the put option at 31 March 2012 was £nil. On an undiscounted basis this liability has a value of £nil.

Both of these transactions have been accounted for through equity, as the Group already controlled these entities and consolidated them as subsidiaries.

B. Hedge End joint venture

A loan of £5.0m was received from the joint venture on 9 October 2002. It is repayable on five business days' notice and was renewed on 1 January 2012. Interest was charged on the loan at 2.0% until 31 December 2009 and 0.5% thereafter.

C. Lima (Bradford) joint venture

A loan facility was provided to the joint venture on 11 August 2008. At 31 March 2012, £25.4m (last year £25.4m) was drawn down on this facility. Interest was charged on the loan at 1.1% above 3-month LIBOR. The Group has entered into a rental agreement with the joint venture and £4.5m (last year £4.5m) of rental charges were incurred. There was no outstanding balance at March 2012.

Notes to the financial statements continued

28 Related party transactions continued

D. Marks & Spencer Pension Scheme

Details of other transactions and balances held with the Marks & Spencer UK Pension Scheme are set out in notes 11 and 12.

E. Key management compensation

	2012 £m	2011 £m
Salaries and short-term benefits	**8.8**	12.0
Post-employment benefits	**0.1**	0.1
Share-based payments	**6.0**	9.0
Total	**14.9**	21.1

Key management comprises Board directors only. Further information about the remuneration of individual directors is provided in the Remuneration report. During the year, key management have purchased goods at the Group's usual prices less a 20% discount. This discount is available to all staff employed directly by the Group in the UK.

F. Other related party transactions

Supplier transactions occurred during the year between the Group and a company controlled by a close family member of Kate Bostock, an executive director of the Group. These transactions amounted to £12.7m during the year (last year £9.3m) with an outstanding trade payable of £1.3m at 31 March 2012 (last year £0.8m). The company was a supplier prior to Kate's employment by the Group.

Supplier transactions occurred during the year between the Group and a company controlled by Martha Lane Fox's partner. Martha is a non-executive director of the Group. These transactions amounted to £1.9m during the year (last year £1.7m) with an outstanding trade payable of £0.5m at 31 March 2012 (last year £0.8m).

29 Events after the reporting period

On 21 May 2012 the Group changed the terms of the Scottish Limited Partnership (the Partnership) to waive the Group's limited discretionary right over the annual distributions from the Partnership to the Pension Trustee. These discretionary rights were agreed with our Trustee in 2009, the time of the last triennial valuation. This change will not have any impact on the cash flows of the Group.

From 21 May 2012 this will result in a prospective change in the Group's accounting treatment. The change will reflect the de-recognition of the related equity instrument and recognition of a financial liability. The liability will initially be measured at fair value, representing the present value of the remaining ten years of distributions of £71.9m per annum. The difference between the value of the derecognised equity instrument and the fair value of the liability will be recognised in equity, in accordance with IAS 32.

As a result of the change, the Group's reported net debt will include this liability, which at the end of financial year 2012/13 will have a value of £537m and the Group's interest charge will increase to reflect the unwinding of the discount on the liability which, in financial year 2012/13, will be a charge of £17m. Similarly the impact on the Group's net assets will be to reduce them by £551m. The Group's obligations to the Pension Trustee remain unchanged and this will not have any material impact on the Group's credit rating.

In March 2009, conscious of the Group's obligations to the Pension Trustee and the Partnership (which is a partnership between the Group and the Pension Trustee which holds a number of properties from which the Group trades and on which the Group pays rent to the Partnership), we amended the terms of the Partnership to reflect a discretionary right agreed between the Group and the Trustee. This right is such that in the circumstances when no ordinary dividend or other distribution is made to ordinary shareholders, the annual distribution of £71.9m from the Partnership to the Pension Trustee would not be obliged to be made. The impact of this change was to reclassify £572m from debt to equity in March 2009, and to reduce the Group's interest charge by £33m in the financial year 2009/10. The Audit Committee and the Board has consistently received accounting and legal advice supporting this accounting treatment. There was no impact on the Group's ultimate obligation to the Pension Trustee and no impact on cash flows.

Following the publication of the 2009 Annual Report and Accounts, in February 2010 the Financial Reporting Review Panel (FRRP) wrote to the company in relation to the change in accounting treatment of the obligation to the Pension Trustee. In the dialogue that followed, and has continued until the present time, the FRRP expressed a concern that in the circumstances of the Group's pension arrangement this discretion was not sufficient to support classification of the Partnership interest as a component of equity.

In the interest of bringing discussions with the FRRP to a close and given that the Group has a stated dividend policy and the Board continues to expect that future dividend payments and resulting Partnership distributions will be made, the Group has decided that it will reflect the obligation as a liability, and in order to achieve this will indefinitely waive its discretionary right. As before, there is no change in the Group's ultimate obligation to the Pension Trustee. The FRRP has confirmed that this change, with the consequent accounting treatment, effective from 21 May 2012, will bring its discussions with the Group to a close.

Company statement of financial position

	Notes	As at 31 March 2012 £m	As at 2 April 2011 £m
Assets			
Non-current assets			
Investments in subsidiary undertakings	C5	**9,194.6**	9,179.8
Total assets		**9,194.6**	9,179.8
Liabilities			
Current liabilities			
Amounts owed to subsidiary undertakings		**2,541.7**	2,591.8
Total liabilities		**2,541.7**	2,591.8
Net assets		**6,652.9**	6,588.0
Equity			
Ordinary share capital		**401.4**	396.2
Share premium account		**294.3**	255.2
Capital redemption reserve		**2,202.6**	2,202.6
Merger reserve		**1,397.3**	1,397.3
Retained earnings		**2,357.3**	2,336.7
Total equity		**6,652.9**	6,588.0

The financial statements were approved by the Board and authorised for issue on 21 May 2012. The financial statements also comprise the notes on pages 108 and 109.

Marc Bolland Chief Executive Officer

Alan Stewart Chief Finance Officer

Company statement of changes in shareholders' equity

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 4 April 2010	395.5	247.5	2,202.6	1,397.3	2,322.2	6,565.1
Profit for the year	–	–	–	–	250.8	250.8
Dividends	–	–	–	–	(247.5)	(247.5)
Capital contribution for share-based payments	–	–	–	–	11.2	11.2
Shares issued on the exercise of employee share options	0.7	7.7	–	–	–	8.4
At 2 April 2011	396.2	255.2	2,202.6	1,397.3	2,336.7	6,588.0
At 3 April 2011	**396.2**	**255.2**	**2,202.6**	**1,397.3**	**2,336.7**	**6,588.0**
Profit for the year	**–**	**–**	**–**	**–**	**273.6**	**273.6**
Dividends	**–**	**–**	**–**	**–**	**(267.8)**	**(267.8)**
Capital contribution for share-based payments	**–**	**–**	**–**	**–**	**14.8**	**14.8**
Shares issued on the exercise of employee share options	**5.2**	**39.1**	**–**	**–**	**–**	**44.3**
At 31 March 2012	**401.4**	**294.3**	**2,202.6**	**1,397.3**	**2,357.3**	**6,652.9**

Company statement of cash flows

	52 weeks ended 31 March 2012 £m	52 weeks ended 2 April 2011 £m
Cash flows from investing activities		
Dividends received	**273.6**	250.8
Net cash generated from investing activities	**273.6**	250.8
Cash flows from financing activities		
Shares issued on exercise of employee share options	**44.3**	8.4
Repayment of intercompany loan	**(50.1)**	(11.7)
Equity dividends paid	**(267.8)**	(247.5)
Net cash used in financing activities	**(273.6)**	(250.8)
Net cash inflow from activities	**–**	–
Cash and cash equivalents at beginning and end of year	**–**	–

Company notes to the financial statements

C1 Accounting policies

The Company's accounting policies are the same as those set out in note 1 of the Group financial statements, except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. The Company grants share-based payments to the employees of subsidiary companies. Each period the fair value of the employee services received by the subsidiary as a capital contribution from the Company is reflected as an addition to investments in subsidiaries.

Loans from other Group undertakings and all other payables are initially recorded at fair value, which is generally the proceeds received. They are then subsequently carried at amortised cost. The loans are non-interest bearing and repayable on demand.

The Company's financial risk is managed as part of the Group's strategy and policies as discussed in note 21 of the Group financial statements.

In accordance with the exemption allowed by Section 408 of the Companies Act 2006, the Company has not presented its own income statement.

C2 Employees

The Company had no employees during the current or prior year. Directors received emoluments in respect of their services to the Company during the year of £932,000 (last year £698,000). The Company did not operate any pension schemes during the current or preceding year.

C3 Auditors' remuneration

Auditors' remuneration in respect of the Company's annual audit has been borne by its subsidiary Marks and Spencer plc and has been disclosed on a consolidated basis in the Company's consolidated financial statements as required by Section 494 of the Companies Act 2006.

C4 Dividends

	2012 per share	2011 per share	2012 £m	2011 £m
Dividends on equity ordinary shares				
Paid final dividend	**10.8p**	9.5p	**170.2**	149.7
Paid interim dividend	**6.2p**	6.2p	**97.6**	97.8
	17.0p	15.7p	**267.8**	247.5

In addition, the directors have proposed a final dividend in respect of the year ended 31 March 2012 of 10.8p per share amounting to a dividend of £172.3m. It will be paid on 13 July 2012 to shareholders who are on the Register of Members on 1 June 2012. In line with the requirements of IAS 10 – 'Events after the Reporting Period', this dividend has not been recognised within these results.

C5 Investments

A. Investments in subsidiary undertakings

	2012 £m	2011 £m
Beginning of the year	**9,179.8**	9,168.6
Additional investment in subsidiary undertakings relating to share-based payments	**14.8**	11.2
End of year	**9,194.6**	9,179.8

Shares in subsidiary undertakings represent the Company's investment in Marks and Spencer plc.

C5 Investments continued

B. Principal subsidiary undertakings

The Company's principal subsidiary undertakings are set out below. A schedule of interests in all undertakings is filed with the Annual Return.

	Principal activity	Country of incorporation and operation	Proportion of voting rights and shares held by: Company	A subsidiary
Marks and Spencer plc	Retailing	Great Britain	100%	–
Marks and Spencer International Holdings Limited	Holding company	Great Britain	–	100%
Marks and Spencer (Nederland) BV	Holding company	The Netherlands	–	100%
Marks and Spencer Marinopoulos BV	Holding company	The Netherlands	–	100%
Marks and Spencer Czech Republic a.s.	Retailing	Czech Republic	–	51%
Marks and Spencer (Ireland) Limited	Retailing	Republic of Ireland	–	100%
Marks and Spencer (Asia Pacific) Limited	Retailing	Hong Kong	–	100%
Marks and Spencer Simply Foods Limited	Retailing	Great Britain	–	100%
Marks and Spencer Marinopoulos Greece SA	Retailing	Greece	–	80%
M.S. General Insurance L.P.	Financial services	Guernsey	–	100%
per una Group Limited	Procurement	Great Britain	–	100%
Marks and Spencer Scottish Limited Partnership	Property investment	Great Britain	–	–[1]

1 Marks and Spencer plc is the general partner.

The Company has taken advantage of the exemption under Section 410 of the Companies Act 2006 by providing information only in relation to subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the financial statements.

C6 Related party transactions

During the year, the Company has received dividends from Marks and Spencer plc of £273.6m (last year £250.8m) and decreased its loan from Marks and Spencer plc by £50.1m (last year £11.7m). The outstanding balance was £2,541.7m (last year £2,591.8m) and is non-interest bearing. There were no other related party transactions.

Group financial record

	2012 52 weeks £m	2011 52 weeks £m	2010 53 weeks £m	2009 52 weeks £m	2008 52 weeks £m
Income statement					
Revenue[1]					
UK	**8,868.2**	8,733.0	8,567.9	8,164.3	8,309.1
International	**1,066.1**	1,007.3	968.7	897.8	712.9
	9,934.3	9,740.3	9,536.6	9,062.1	9,022.0
Operating profit[1]					
UK	**658.0**	679.0	701.1	755.0	1,095.9
International	**88.5**	157.9	150.9	115.7	115.4
Total operating profit	**746.5**	836.9	852.0	870.7	1,211.3
Net interest payable	**(114.1)**	(93.9)	(160.1)	(199.9)	(141.1)
Pension finance income	**25.6**	37.6	10.8	35.4	58.9
Profit on ordinary activities before taxation – continuing operations	**658.0**	780.6	702.7	706.2	1,129.1
Analysed between:					
Underlying profit before tax	**705.9**	714.3	694.6	604.4	1,007.1
Adjustments to reported profit	**(47.9)**	66.3	8.1	101.8	122.0
Income tax expense	**(168.4)**	(182.0)	(179.7)	(199.4)	(308.1)
Profit after taxation	**489.6**	598.6	523.0	506.8	821.0

		2012 52 weeks	2011 52 weeks	2010 53 weeks	2009 52 weeks	2008 52 weeks
Basic earnings per share[1]	Basic earnings/ Weighted average ordinary shares in issue	**32.5p**	38.8p	33.5p	32.3p	49.2p
Underlying basic earnings per share[1]	Underlying basic earnings/ Weighted average ordinary shares in issue	**34.9p**	34.8p	33.0p	28.0p	43.6p
Dividend per share declared in respect of the year		**17.0p**	17.0p	15.0p	17.8p	22.5p
Dividend cover	Underlying earnings per share/ Dividend per share	**2.1x**	2.0x	2.2x	1.6x	1.9x
Retail fixed charge cover	Operating profit before depreciation and operating lease charges/ Fixed charges	**3.9x**	4.0x	4.0x	3.5x	5.3x
Statement of financial position						
Net assets (£m)		**2,778.8**	2,677.4	2,185.9	2,100.6	1,964.0
Net debt[2] (£m)		**1,857.1**	1,900.9	2,068.4	2,490.8	3,077.7
Capital expenditure[3] (£m)		**737.5**	491.5	397.1	653.3	1,102.9
Stores and space						
UK stores		**731**	703	690	668	622
UK selling space (m sq ft)		**16.0**	15.6	15.4	14.9	14.3
International stores		**388**	361	320	296	278
International selling space (m sq ft)		**4.7**	4.2	3.6	3.1	2.9
Staffing (full-time equivalent)						
UK		**51,938**	49,922	48,722	50,614	49,703
International		**5,116**	4,753	4,272	3,539	2,573

1 Based on continuing operations.
2 Excludes accrued interest.
3 2012 includes £32.4m of M&S Mode brands and 2008 includes £48.4m of goodwill.

Shareholder information

Analysis of share register

Ordinary shares

As at 31 March 2012, there were 204,186 holders of ordinary shares whose shareholdings are analysed below.

	Number of holdings	Percentage of total shareholders	Number of ordinary shares	Percentage of ordinary shares
Range				
1 – 500	102,866	50.38	20,237,112	1.26
501 – 1,000	40,794	19.98	30,526,950	1.90
1,001 – 2,000	31,212	15.29	44,810,404	2.79
2,001 – 5,000	20,859	10.21	64,144,009	3.99
5,001 – 10,000	5,356	2.62	37,189,668	2.32
10,001 – 100,000	2,513	1.23	58,554,862	3.65
100,001 – 1,000,000	421	0.21	144,603,713	9.01
1,000,001 – HIGHEST	165	0.08	1,205,440,384	75.08
Total	204,186	100.00	1,605,507,102	100.00

Many private investors hold their shares through nominee companies, therefore the percentage of private holders is much higher than that shown – we estimate approximately 30%.

	Number of holdings	Percentage of total shareholders	Number of ordinary shares	Percentage of ordinary shares
Holders				
Private	196,073	96.03	260,111,955	16.20
Institutional and Corporate	8,113	3.97	1,345,395,147	83.30
Total	204,186	100.00	1,605,507,102	100.00

Managing your shares

The Company's register of shareholders is maintained by our Registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly. Their contact details can be found overleaf. Alternatively, shareholders may find the 'Investors' section of our corporate website useful for general queries.

Dividends

Paid in January and July each year. We encourage shareholders to have dividends paid directly into their bank account to ensure efficient payment and cleared funds on the payment date. Those selecting this payment method receive an annual consolidated tax voucher in January, showing both dividend payments in the respective tax year. However, we are able to send separate tax vouchers with each payment, if preferred.

To change how you receive your dividends either log on to shareview.co.uk or contact Equiniti.

Duplicate documents

Around 10,000 shareholders still receive duplicate documentation and split dividend payments due to having more than one account on the share register. If you think you fall into this group and would like to combine your accounts, please contact Equiniti.

If you move house

It is extremely important that you contact Equiniti to inform them of your new address as soon as possible. If you hold 1,500 shares or fewer, and reside in the UK, this can be done quickly over the phone. However, for holdings greater than 1,500 your instruction will need to be in writing, quoting your full name, shareholder reference number (if known), previous address and new address.

Corporate website

Whether you are interested in learning more about our Heritage, our Social, Environmental and Ethical responsibilities, our approach to Corporate Governance or viewing our latest Press releases, the M&S corporate website provides a wealth of information for shareholders.

If you have a general query regarding your shareholding, it can often be worthwhile making the 'Investors' section of our corporate website your first port of call as it contains much of the information that is most frequently requested from our shareholder helpline. Shareholders are also encouraged to sign up to receive emailed news alerts, which include all financial news releases throughout the year. These are not mailed to shareholders. You can access the corporate website at marksandspencer.com/thecompany.

The directors are responsible for the maintenance and integrity of the financial information on our website. This information has been prepared under the relevant accounting standards and legislation.

ShareGift

Do you have a small shareholding which is uneconomical to sell? You may want to consider donating it to ShareGift (Registered charity no. 1052686), a charity that specialises in donating unwanted small shareholdings to good causes. You can find out more by visiting sharegift.org or by calling +44 (0)207 930 3737.

Shareholder information continued

Electronic communication

In recent years, changes in legislation have removed the need for companies to mail endless amounts of paper to shareholders. Instead, companies are turning to the speed, environmental and cost-saving benefits of communicating with their shareholders via the internet. M&S has actively been encouraging shareholders to sign up to this method of communication, as the reduction in printing costs and paper usage make a valuable contribution to our 'Plan A' commitments. It is equally beneficial to shareholders, who can be notified by email whenever we release trading updates for investors to the London Stock Exchange. These are not mailed to shareholders.

Registration is very straightforward through Shareview, the internet based platform provided by Equiniti. For information about how to register, please visit the 'Investors' section of our corporate website.

Shareholder security

REMEMBER: if it sounds too good to be true, it probably is!
It sounds obvious, but if a stranger rings you out of the blue and tries to sell you shares in companies you have probably never even heard of – take great care. They may be part of a financial scam using hard-sell tactics to persuade you to buy shares. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. Further information can be found at cityoflondon.police.uk/citypolice within the Economic Crime section.

Capital Gains Tax

For the purpose of Capital Gains Tax, the price of an ordinary share on 31 March 1982 was 153.5p, which when adjusted for the 1 for 1 scrip issue in 1984, gives a figure of 76.75p. Following the capital reorganisation in March 2002, HMRC has confirmed the base cost for CGT purposes was 372.35p (81.43%) for an ordinary share and 68.75p (18.75%) for a B share.

American Depositary Receipts (ADRs)

The Company has a Level 1 ADR program. This enables US investors to purchase Marks & Spencer American Depository Shares (ADS) in US dollars 'over the counter'. The Company has chosen to have the ADRs quoted on the OTC market's highest tier, International PremierQX.

For information on OTCQX go to
otcqx.com

For Deutsche Bank email:
DB@amstock.com

ADR website: adr.db.com

Toll free callers within the US:
1 866 249 2593

For those calling outside the US:
+1 (718) 921 8137

AGM 2012

This year's AGM will be held at Royal Festival Hall, Southbank Centre, London SE1 8XX on Tuesday 10 July 2012. The meeting will start at 11am and registration will be available from 9.30am.

Key dates for your diary

30 May 2012	Ex-dividend date – Final dividend
1 June 2012	Record date to be eligible for the final dividend
10 July 2012	Results – Quarter 1 Interim Management Statement†
10 July 2012	Annual General Meeting
13 July 2012	Final dividend payment date for the year to 31 March 2012
6 November 2012*	Results – Half Year†
14 November 2012*	Ex-dividend date – Interim dividend
16 November 2012*	Record date to be eligible for the interim dividend
January 2013*	Results – Quarter 3 Interim Management Statement†
11 January 2013*	Interim dividend payment date

* provisional dates.
†Those registered for electronic communication or news alerts at marksandspencer.com/thecompany will receive notification by email when this is available.

How to get in touch

Registered office and Head office
Waterside House, 35 North Wharf Road,
London W2 1NW
Telephone +44 (0)20 7935 4422
Registered in England and Wales (no. 4256886)

Registrars
Equiniti Limited,
Aspect House, Spencer Road, Lancing,
West Sussex BN99 6DA
United Kingdom
Telephone 0845 609 0810
and outside the UK +44 (0) 121 415 7071
Online: help.shareview.co.uk
From here, you will be able to securely email Equiniti with your enquiry.

Group Secretary and Head of Corporate Governance
Amanda Mellor

Additional documents
For both the Annual Report or Annual Review go to
marksandspencer.com/thecompany

Alternatively, call 0800 591 697

Please note, students are advised to source information from our website.

Contact us
email us at chairman@marks-and-spencer.com
Customer queries: 0845 302 1234
Shareholder queries: 0845 609 0810

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