

M&S

EST. 1884

ANNUAL REPORT &
FINANCIAL STATEMENTS
2016



FINANCIAL OVERVIEW

GROUP PERFORMANCE (52 WEEKS)

GROUP REVENUE

£10.4bn^{+0.8%}

UNDERLYING PROFIT BEFORE TAX

£684.1m^{+3.5%}

INTERIM AND FINAL DIVIDEND

6.8p + 11.9p¹ = 18.7p^{+0.7p}

SPECIAL DIVIDEND

4.6p

UNDERLYING GROUP EARNINGS PER SHARE

34.8p^{+5.1%}

GROUP PROFIT BEFORE TAX

£483.3m^{-19.5%}

BASIC EARNINGS PER SHARE

24.6p^{-17.2%}

STRATEGIC PRIORITIES FOR THE YEAR

UK FOOD REVENUE

£5.4bn^{+3.6%}

CLOTHING & HOME GROSS MARGIN

55.1%^{+245bps}

UK CLOTHING & HOME REVENUE

£3.9bn^{-2.2%}

FREE CASH FLOW PRE SHAREHOLDER RETURNS

£539.3m^{+2.9%}

1. Subject to shareholder approval.

ABOUT OUR REPORTING

53 WEEK YEAR This year we are reporting on the 53 weeks to 2nd April 2016, as every six years an additional week is included to ensure that the year-end date stays in line with the end of March. In order to provide a meaningful comparison with last year's 52 week period, all financial movements are reported on a 52 week basis, and excluding the 53rd week, unless otherwise noted. All balance sheet and cash flow information is reported as at the year-end date.

+ [Full details of the 53 week results can be found in the Financial Review p23](#)

INTEGRATED REPORTING We have set out to produce an Annual Report that meets the guiding principles of the Integrated Reporting Council framework by developing our reporting in several key areas. These include: improvements to our business model to better show the

effective use of the resources and relationships relevant to M&S; a new, more detailed look at our business model and how it drives value creation through the interdependencies within our business; mapping our principal risks against our business model to demonstrate the connectivity between the two; and the continued linkage between our KPIs and remuneration.

ONLINE INFORMATION We provide comprehensive company information for our shareholders on our website, including digital versions of all our Annual Reports. We encourage all our shareholders to receive information electronically as it enables us to keep them informed about company news and trading updates throughout the year.

+ [Follow the 'Electronic Shareholder Communication' link at \[marksandspencer.com/investors\]\(#\)](#)

INVESTOR RELATIONS APP We have upgraded our Investor Relations app so that it is now optimised for use across all devices and on all operating systems, including iOS and Android. The app displays the latest share price information and corporate news and contains financial reports, presentations and videos.

NAVIGATING THE REPORT In this document you will see a series of icons that demonstrate how we've integrated information about our business model and performance with details of our principal risks, remuneration and Plan A. The icons also tell you where to look for further information, either in this report or in our 2016 Plan A Report.

+ [Our Plan A Report can be viewed at \[marksandspencer.com/plana2016\]\(#\)](#)

INTRODUCTION

M&S IS ONE OF THE
UK'S LEADING RETAILERS, WITH
1,382 STORES WORLDWIDE.
WE ARE COMMITTED TO
DELIVERING SUSTAINABLE VALUE
FOR OUR STAKEHOLDERS AND
MAKING EVERY MOMENT SPECIAL
THROUGH THE HIGH QUALITY, OWN
BRAND FOOD, CLOTHING AND HOME
PRODUCTS WE OFFER IN OUR STORES
AND ONLINE, BOTH IN THE UK
AND INTERNATIONALLY.

WHAT'S IN THIS REPORT?

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*Directors' report

Shareholder information forms part of the Directors' Report.

OUR BUSINESS

AT A GLANCE

FOOD

Quality, innovation and choice are the hallmarks of our Food business, which accounts for 58% of our turnover.

We have 914 UK stores, including 222 owned and 349 franchise Simply Food stores. Our customers turn to us for innovative, great value products, whether they are looking for the convenience of incredible food prepared for them, healthy cooking inspiration or for something different to celebrate a special occasion.

[+ Read more on p15](#)

FOOD REVENUE

£5.4bn +3.6%

NUMBER OF NEW LINES

1,700 25% of range

NUMBER OF CUSTOMERS

20.1m +0.1m



CLOTHING & HOME

As one of the UK's leading retailers, we sell **stylish, high-quality, own brand** Womenswear, Lingerie, Menswear, Kidswear,

Beauty and Home products, serving customers through our 302 full-line stores and website, M&S.com. Our Clothing & Home business accounts for 42% of our turnover. We are the UK's largest clothing retailer by value and we have market-leading positions in Womenswear, Lingerie and Menswear.

[+ Read more on p15](#)

CLOTHING & HOME REVENUE

£3.9bn -2.2%

M&S.COM SALES

£791.5m¹ +23.4%

NUMBER OF CUSTOMERS

24.7m +0.7m



1. Total M&S.com sales including Food and International.

INTERNATIONAL

We have 468 stores across **Europe, Asia and the Middle East**. We operate through three different business models – owned, franchise and joint venture – to bring our quality Clothing & Home collections and Food ranges to our international customers. We also have a growing international online business delivered through localised owned and franchise websites and through partnerships with leading marketplaces.

[+ Read more on p16](#)

INTERNATIONAL REVENUE

£1.1bn -2.0%

INTERNATIONAL STORES

468 -12 net new stores

TERRITORIES

58 -1



PLAN A 2020

A

For 132 years, our customers have trusted M&S to behave in a responsible way. The commitments we make through Plan A ensure that we make a positive difference, whether it's sourcing responsibly, conserving energy, reducing waste or supporting the communities we serve. In a world facing rapidly growing environmental and social challenges, we believe we can make a difference by **leading the way on truly sustainable change**.

[+ marksandspencer.com/plana2016](#)

TOTAL PLAN A 2020 COMMITMENTS

104

COMMITMENTS ACHIEVED **57** COMMITMENTS NOT ACHIEVED **5**

COMMITMENTS ON PLAN **40** COMMITMENTS BEHIND PLAN **1**

COMMITMENTS CANCELLED

1



OUR BUSINESS

CHAIRMAN'S STATEMENT



We are focused on strengthening our position as a modern, profitable business rooted in **fulfilling the needs of our customers.**

ROBERT SWANNELL CHAIRMAN

INTERIM

FINAL

TOTAL DIVIDEND FOR 2015/16

6.8p

11.9p

18.7p

PAID ON 8 JANUARY 2016

TO BE PAID ON 15 JULY 2016

EXCLUDING SPECIAL DIVIDEND

OVERVIEW

At the end of the financial year Marc Bolland retired as Chief Executive. He was succeeded by Steve Rowe at the beginning of April. I would like to thank Marc for leading the company through a period of necessary modernisation over the past six years. Much essential work has been done during Marc's tenure to build our infrastructure and capabilities, particularly in support of the online and digital elements. We are a more capable company with significantly improved digital, design and sourcing skills in Clothing & Home and industry leading performance and outstanding innovation in Food. M&S is now better equipped to meet today's customer needs.

The start of Steve's tenure in April opened a new chapter which will see us continue to accelerate the pace and scale of change across the business. The focus will be on execution and implementing the actions required to complete the transformation of M&S's infrastructure and its business to compete effectively in a modern, digital age.

A NEW CHAPTER

Steve has a deep understanding of M&S, having worked at the company for over 25 years. He has been a Board member since 2012 and has a proven track record of delivering results. He also understands the need for change. It is this insider knowledge coupled with an appetite for transformation that makes him uniquely qualified to lead our business forward.

Steve is straightforward, authentic and decisive. These are qualities that will carry our people with him. These qualities, together with his clear focus on our customer, simplicity and teamwork, are the reasons Steve was chosen to lead the business. Under his leadership, our aim is to again become as distinctive in Clothing & Home as we now are in Food.

PERFORMANCE

Our performance during the year was mixed. We delivered a good performance in Food and a substantial improvement in our Clothing & Home margins, but Clothing & Home sales were not satisfactory. The overall result is that underlying profit before tax rose by 3.5% to £684.1m, although due to non-underlying items of £200.8m, statutory profits were down 19.5% to £483.3m.

In Food, we had another strong year, despite the market remaining extremely competitive. Customers continue to be drawn to our distinctive offer. They love our high levels of newness and innovation and our emphasis on convenience. As planned, we were able to grow the business profitably, including opening 75 new Simply Food stores, which are performing strongly.

Our Clothing & Home business underperformed. Although it delivered significant margin gains due to better design and sourcing skills, our sales performance was unsatisfactory. Steve's number one priority is to return Clothing & Home to sustainable, profitable growth. With his direct control of the division and his detailed understanding of the issues it faces, this underperformance is being addressed as a matter of urgency.

M&S.com outperformed the market and it continues to reap the benefits of the investment made over the last few years. Performance against all metrics improved during the year. Our Castle Donington automated distribution centre has significantly strengthened our infrastructure and its performance this year exceeded our plans. Over the year we saw sales through mobile and tablets grow strongly as customers' shopping behaviour continues to evolve.

Our International business faced significant headwinds due to currency fluctuations, the slowing global economy and geopolitical unrest alongside some operational challenges. Although we saw good growth in India, our business in Europe is not producing satisfactory returns. We are looking at every part of our International business to make sure our strategy remains relevant.

VALUES AND PLAN A

A Our values of Inspiration, Innovation, Integrity and In Touch are as important to us as ever. The work we do in communities and the steps we take to help disadvantaged people into work are daily proof that these values are authentic. This year, over 1,000 of our employees took part in Spark Something Good; a co-ordinated series of community and charity action days in cities across the UK. Among the many charities we were delighted to support this year was Style for Soldiers, an organisation that provides bespoke outfits for wounded servicemen. Nine years after its launch, Plan A continues to influence the decisions we make. Our work with our suppliers and other

THIS YEAR'S REPORT – KEY FEATURES

We continue to keep the structure of our reporting suite under review, in line with our ambition to encourage more shareholders to use digital communications and to therefore reduce the number of documents we print.

In line with our simplified management structure and approach, we have updated how we report on our performance, with a new combined Operating Performance chapter that focuses on our products and how we serve and engage our customers.

The report focuses on ensuring key messages are easy to locate, and addressing the factors that have impacted the business during the year and the factors that are most important to the business's long-term prospects.

We consider this report to be fair, balanced and understandable. It is a reflection of how we operate as a business and how the Board has served its stakeholders.

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

stakeholders lies at the heart of our ethical sourcing and provenance policies. These are pivotal elements in ensuring the trust our customers place in us is soundly based.

Doing the right thing is genuinely embedded in this business. Just as I believe that people should behave in the right way towards their neighbours, so I believe that businesses should do the right thing in their local communities and this focus on our customers and communities will continue under Steve's leadership. Plan A and our strong values guide how we behave.

SUCCESSION

Since I became Chairman I have had a consistent commitment to focus on our people and succession planning. Our people are the backbone of our business and identifying talent and supporting development continues to be one of the Board's key priorities.

At several moments during the year our executive team succession planning and processes were tested and proven to be robust. This approach to succession has allowed us to replace and reallocate responsibilities quickly and seamlessly, reacting to both planned and unplanned changes. Steve's appointment as Chief Executive is an example of this in action. The appointment was the culmination of very careful discussion and preparation, with particular emphasis on both Steve's development and our top talent over a number of years. The Board is grateful to Marc for his planning, enabling the Nomination Committee to work carefully and systematically on his succession. The Committee assessed external and internal

The Governance report provides:

- A clear and honest review of the year;
- The outcome of our Board Evaluation;
- Greater disclosure around Board discussions and associated actions;
- Our approach to the assessment of the long-term viability of the business; and
- Our approach to risk and risk appetite.

As a Board we regularly discuss and debate:

→ Strategy and Company performance	→ Cyber and IT
→ Culture and behaviour	→ The M&S brand
→ Succession planning	→ International
→ Ecommerce	→ Supply chain
	→ Risk
	→ Property
	→ Plan A 2020

+ See Governance Section p32-77

candidates thoroughly and at the end of what was an exceptionally rigorous process, we were unanimously convinced Steve was the best candidate.

The shape and composition of your Board has changed significantly over the year. We now have fewer executive directors and a more streamlined reporting structure. We have strong, competent leaders running our Business Units and our new structure is simpler, more agile and reflects the trust we have in our teams to deliver.

BOARD CHANGES

In July, John Dixon, Executive Director of General Merchandise, resigned and left the business to pursue career opportunities outside the Company. I would like to thank John for his service over many years and his many contributions to the success of the business in that time.

In December, Andrew Fisher, the Chairman of Shazam, one of the world's leading digital businesses, joined our Board as a non-executive director. Andrew brings strong digital, customer insight and international experience with him. He has joined our Nomination and Audit Committees, and I would like to extend him a warm welcome.

Martha Lane Fox, who has served as a non-executive director for nine years, stepped down from the Board in April. Martha brought the perspective and energy of an entrepreneur to the role and made a difference to our business well beyond her strong digital background. I would like to thank her for her major contribution.

OUR GOVERNANCE PRINCIPLES

LEADERSHIP

+ See p34

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

EFFECTIVENESS

+ See p39

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

ACCOUNTABILITY

+ See p47

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

ENGAGEMENT

+ See p49

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

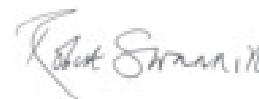
SHAREHOLDER RETURNS

Our dividend policy remains a progressive one, with dividends broadly covered twice by earnings. We intend to pay a final dividend of 11.9p, taking the total dividend to 18.7p, up 3.9% on last year. In addition, a special dividend of 4.6p will be paid at the same time as the final dividend.

LOOKING AHEAD

People and succession planning will remain one of the Board's three priorities, alongside strategy and its execution, and values. Much of our focus will be on supporting Steve and his team as they implement their plan to improve our Clothing & Home performance and make us a more profitable and valuable business for our shareholders. M&S has evolved significantly since I joined as Chairman, and there will be further changes ahead as we strengthen our position as a modern, profitable business rooted in fulfilling the needs of our customers in a digital world.

Finally, I would like to thank all our employees for their hard work. I spend as much time as possible with employees at all levels in our offices and stores all over the country. I have always found our people to be professional, positive and dedicated to our customers. Wherever they work, they show huge pride in working for this unique business, and I would like to extend my gratitude to every one of them. They are what makes M&S genuinely special.



ROBERT SWANNELL CHAIRMAN

OUR BUSINESS

CHIEF EXECUTIVE'S STRATEGIC UPDATE



We are at our best when we are **completely focused on our customers**. My plan is to keep things simple by putting them at the heart of M&S – every decision starts with them.

STEVE ROWE CHIEF EXECUTIVE

OVERVIEW

I am really proud and privileged to be your new Chief Executive. The most important thing I've learnt in my 25 years at M&S is that we are at our best when we are completely focused on our customers. My plan is to keep things simple by putting our customers at the heart of this business.

I've worked in every part of M&S, from the shop floor to leading Retail and M&S.com, from Menswear merchandising to running our Food division and my most recent position as Executive Director of Clothing & Home. I care passionately about the company and its success.

Before I talk about the future, let me address our immediate past. Our performance over the last year was mixed. Whilst we continued our great performance in Food, the performance of our Clothing & Home business continued to be unsatisfactory. Our International business also had a challenging year and was affected by numerous issues, both internal and external. Overall Group profit was impacted by a number of non-underlying items, which this year include impairments in our International business, our UK store portfolio and a review of our Clothing & Home buying and merchandising system. There are further details on these in the Financial Review on page 24.

I want M&S to play a leading role in the future of UK and international retailing, and I want it to have a clear and sustainable path. When my appointment was

announced in January, I immediately set about gaining a deeper understanding of why parts of the business have been underperforming. I asked myself and the team a series of exam questions about M&S. How can we understand our customers better? Is our current structure right for the company's future? What are the growth opportunities in Food? How do we recover and grow our Clothing business? What do we need to do to respond to the rapidly changing consumer environment, both in the UK and internationally?

Answering some of these questions and tackling the issues will take time. But others are more easily answered. We have set out the first phase of our plan: we addressed how we can better understand our customers and what M&S means to them; we outlined our immediate plans to address recovery and growth in Clothing & Home; we talked about our Food growth opportunity; and we launched a review of our cost base. Details of these are below and we'll report back in the autumn on the other key areas we are still reviewing.

If I was asked to sum up what M&S means to me in one word, I'd say 'special'. M&S is a fantastic brand that has a history of serving our nation with fantastic products. That is why we believe in making every moment special for our customers.

OUR CUSTOMERS

Our customers are now at the heart of everything we do. This means that every

decision starts with them. Our actions are driven by listening to what customers tell us, not by what we think is right for them.

We know who our customers are and we value every one of them. M&S serves 32.2 million shoppers a year, equivalent to over half the UK population and two-thirds of its adults. 20.1 million of those customers buy our Food, which means we have an opportunity with the over 12 million who don't. 58% of our customers are female, and around half are over the age of 50. Our most loyal customers account for around 11% of spend. Looking at who our customers are and how they shop with M&S is crucial to our future. We need to make more of M&S more relevant to our customers more often. There remain great opportunities for growth.

[+ Read more on p08](#)

CLOTHING & HOME

Our Clothing & Home division has many strengths: we have leading market shares in many categories, perceptions of our quality are high, and customers like many of our innovations. But as the UK clothing market has grown and changed in recent years, we have consistently underperformed.

Clothing & Home has been my focus since I took over running the division in September 2015 and turning around its performance is my number one priority.

We took immediate action in some key areas. We improved availability, sharpened

Our values underpin everything we do...

INSPIRATION

We aim to excite and inspire our customers

INNOVATION

We are restless in our aim to improve things for the better

PRIORITIES TO ADDRESS

FOCUS ON PUTTING CUSTOMERS AT THE HEART OF M&S AND DRIVING SALES GROWTH

Implementing actions to recover and grow Clothing & Home:

- Re-establish style authority: focus on product, quality and fit;
- Restore price position: lowering prices and reduced promotional stance;
- Enhanced customer experience: sharper ranges, better availability and investment in store staffing.

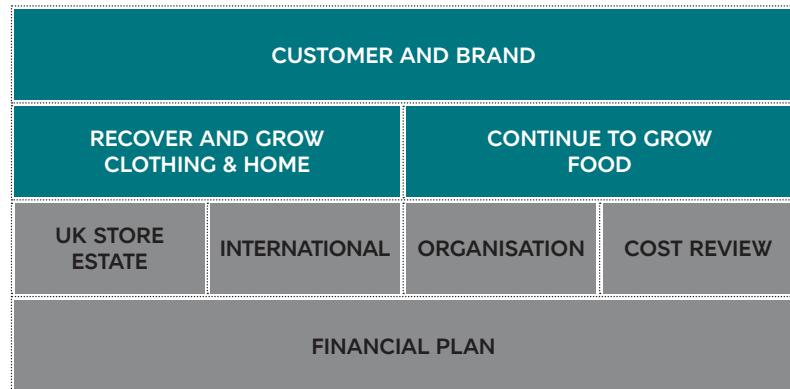
Continuing to grow Food business:

- Build on strengths: focus on quality, innovation and choice;
- Commitment to value credentials: competitive pricing while maintaining margin;
- Improved convenience: extended Simply Food store opening programme.

Driving profitability for shareholders:

- Continued tight control of costs and cash;
- Focus on shareholder returns.

Additional strategic questions, including International, UK store estate and organisation to be answered in the autumn.



our price points and reshaped the structure of our Womenswear team to better reflect the way our customers shop. This new structure means that garments are now bought by product category – such as skirts, shirts, or trousers – rather than by M&S Collection and the sub-brands, such as Autograph and Limited Edition. This way we reduce needless proliferation. We have also dropped 'General Merchandise' as the catch-all name for the non-Food half of our business: we should be using the same language as our customers to describe our business.

We have a lot more to do. We have been giving customers too many reasons not to shop with us. They tell us that we have not got the balance between fashion and style right and that we don't offer enough choice. They say that we are sometimes too expensive and that our stores are difficult to shop. In addition, we know that our internal structure has meant that we have not pursued areas of high growth quickly enough. Our plan this year is to address the root causes of these issues. We will continue to lower prices across the board and reduce the number of promotions. We will put increased emphasis on contemporary styling rather than slavishly following catwalk trends, and we will focus on innovations that are genuinely useful to our customers.

We know that our customers want to feel that they're getting great value every time they shop with us. It is for the customer – not us – to decide what constitutes value.

But I would say that the equation customers use when assessing value is satisfaction minus price. Did they enjoy their experience? How good is the product? Does it fit well or taste good? How was the service? These are the building blocks of satisfaction. Once the customer has assessed these, she can subtract the price and determine whether she's received value.

FOOD

In our Food division we have an engine for sustained, profitable growth. The opportunity remains for us to grow our Simply Food store network in the UK and internationally as we strive to make every food moment special for our customers around the world. We will continue to innovate, with an emphasis on health, convenience, special occasions and gifting. We will offer customers real choice by carefully tailoring our ranges to the location of the store and the mission of the shopper. Whether they want a pork pie or a superfood salad, a pint of milk or a chicken tikka prepared meal, we will strive to give them the best there is. In addition to the 250 Simply Food stores we have already committed to, we will open a further 200 by the end of 2018/19 to make our great food offer accessible to even more customers.

COSTS

We will continue to be prudent on costs. In some cases, our processes have become too complicated and we continue to review the way we work with a view to simplifying it.

We will use any cost savings to invest in more store colleagues. After all, they are the people who are closest to our customers.

OUR PEOPLE

Fairness and consistency are important to me. I believe in rewarding people for success, wherever they work in the company. We have reviewed how we reward our employees and have proposed a new approach to pay and pensions. The proposed pay changes, which would make us one of the best payers in UK retail, would reward our people in a fair and consistent way and include proposals for a significant base rate increase for our Customer Assistants. The proposed new approach to pensions would ensure we offer all employees the same Defined Contribution Scheme; a competitive pension scheme that is sustainable for the future. Members of the Defined Benefit Pension scheme would not lose any benefits they have previously earned and would be auto-enrolled into the Defined Contribution Scheme. We have started a period of consultation with National Business Involvement Group, the appropriate representatives within M&S's network of elected employee representatives, on both of these proposals and will listen carefully to their feedback. I believe that these changes would mean we can offer one of the best pay and benefit packages in UK retail, so we can keep retaining and attracting the best people to our business.

INTEGRITY

We always strive to do the right thing

IN TOUCH

We listen actively and act thoughtfully

CHIEF EXECUTIVE'S STRATEGIC UPDATE
CONTINUED

LOOKING AHEAD

There are many areas of our business that we are still reviewing. In the autumn we will report back on future growth channels. We will also give an update on the plans for our UK store portfolio, and the shape of our International business.

I wrote at the start of this section that I am proud to be your CEO. I'd like to tell you why.

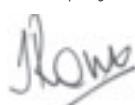
Ever since I started working for this great company over a quarter of a century ago as a Saturday boy in the Croydon store, I have seen how it has improved the quality of people's lives through innovation and giving customers what they want. M&S is responsible for hundreds of high street firsts that are now part of everyday life, from fresh pasta and avocados to machine washable bras and Lycra. M&S has brought a better quality of life to the nation.

I have had a wonderful M&S career to date and am privileged to have worked in almost every department of the business. I've never had a job I didn't enjoy. And I've seen first-hand how M&S can be a force for good: we have led the way in sustainability and, through Plan A, this will continue.

The only time we have stumbled as a company is when we've become introverted, lost sight of the customer or failed to keep pace with modern living.

People who know me will tell you that I believe in simplicity, honesty, efficiency and teamwork. More than anything, I believe in our people throughout the company.

M&S is a special company. Our food is special. Our clothes are special. Our people are special. Plan A is special. I am proud of the role that M&S has played in people's lives. I want to be equally proud of the role it plays in the future.



STEVE ROWE CHIEF EXECUTIVE

◀ UNDERSTANDING OUR CUSTOMERS

Analysing our customers reveals that we have three clear groups, defined by how frequently they shop with us and how much they spend, and we believe that tapping into these behaviours and reconnecting with our customers will help us to deliver

growth. We have been in listen mode and we have heard some common reasons for why customers are not always choosing M&S, and now understand how to use these to reignite their affection and become more relevant more often.

BY UNDERSTANDING OUR CUSTOMERS...

CUSTOMERS	CUSTOMER CHARACTERISTICS		
Total customers 32m	WOMEN 58%	BOTH FOOD & CLOTHING SHOPPING 30%	SHOP A SINGLE MISSION 90%
OVER 50 54%	MEN 42%	UNDER 35 22%	

...AND THEIR SHOPPING HABITS...

CUSTOMER by type	CLOTHING		FOOD	
	VISITS per year	SPEND per visit	VISITS per year	SPEND per visit
Occasional 22m	2	£14	4	£9
Core 7m	8	£28	11	£19
Top 3m	26	£25	75	£14

...WE WILL DELIVER WHAT OUR CUSTOMERS WANT...

IN CLOTHING:

- A focus on style rather than fashion
- Better fit that flatters
- Better availability
- Clearer pricing and value definition
- Inspiring and effortless experience

IN FOOD:

- Further ahead on trends
- Inspire with recipe ideas
- More adventurous mid-week
- More personal
- Inspiring and effortless experience



...INCREASING OUR CUSTOMER VISITS AND SPEND.

LEADERSHIP TEAM

We are committed to putting our 32 million customers at the heart of everything we do. Simplicity and teamwork are key to us achieving this.

We recently implemented a streamlined management structure that allows us to work as one team, in a simpler and more efficient way at pace and with vigour. This new structure, coupled with a new emphasis on fact-based decision-making, means that we are better able to focus on our customers' requirements.

As part of the changes, we reorganised the responsibilities of our executive directors. Patrick Bousquet-Chavanne has become Executive Director, Customer, Marketing & M&S.com and assumed new responsibilities for M&S.com and Plan A. Helen Weir, Chief Finance Officer, has assumed responsibility for Strategy Implementation. Consequently, our International business will now report

directly into me. We look forward to welcoming Laura Wade-Gery back from her maternity leave in September 2016 and we will update on her responsibilities on her return.

We are establishing a tighter Operating Committee of eleven to replace the former Management Committee. This team will be accountable for the day-to-day running of M&S and for the development and execution of our strategy.

Joining the Executive Directors on the Operating Committee are: Andy Adcock, Food Director; Jo Jenkins, Womenswear, Lingerie & Beauty Director; Sacha Berendji, Retail Director; Paul Friston, International Director; Dominic Fry, Communications & Investor Relations Director; Simmone Haywood, Acting HR Director; and Amanda Mellor, Group Secretary and Head of Corporate Governance.

We know that every decision we make must be for the benefit of our customers, our employees and our shareholders. Our first priorities are to turn around our Clothing & Home business and grow our Food offer. We will do this by using customer intelligence and data to drive our decision-making. By listening to what our customers tell us, we can give them more products that excite them and we can help to make every moment special. I believe that at M&S we know more about our customers than we've ever known before; by harnessing this information, we can make the right decisions and act with clarity on behalf of everyone who shops with us.

There is a new ethos of collective responsibility among the senior leadership team; from our unstinting attention to our customers' needs to the importance of acting as a team. We are totally aligned in our approach: to do everything in the best interests of our customers.

OPERATING COMMITTEE



Steve Rowe
Chief Executive



Helen Weir
Chief Finance Officer



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



Laura Wade-Gery
Executive Director,
Multi-channel



Andy Adcock
Food Director



Jo Jenkins
Womenswear, Lingerie &
Beauty Director



Sacha Berendji
Retail Director



Paul Friston
International Director



Dominic Fry
Communications & Investor
Relations Director



Simmone Haywood
Acting HR Director



Amanda Mellor
Group Secretary and Head
of Corporate Governance

OUR BUSINESS

CREATING SUSTAINABLE VALUE

OUR BUSINESS MODEL

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

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

OUR RESOURCES & RELATIONSHIPS

£ FINANCIAL

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

OUR PRODUCT & CHANNELS

Maintaining our channels and supply chain infrastructure to meet customer demand

⌚ OUR INTELLECTUAL CAPITAL

Strengthening our brand through creation and protection of our intellectual property

LISTEN & RESPOND

Activities: Our customers are our most important stakeholders. Through detailed understanding of their needs and changing behaviours, we can achieve our core purpose of making every moment special. Our Customer Insight Unit analyses feedback from over 60,000 customers a month. We also gather insights from our team of over 65,000 employees who serve customers in our stores. Furthermore, we engage with over 5 million followers daily on social media. By continually analysing what they tell us, we can equip our people with the insight to learn and adapt to meet our customers' needs.

Outcome: Knowing what our customers want helps us tailor our products, channels and services around them so that they have more reasons to shop with M&S.

STRATEGY & PLANNING

Activities: We create long-term sustainable value through the delivery of our strategy and prudent financial management. We will continue to invest in the business to support future growth whilst tightly controlling costs. It is not only financial resources that need efficient management – it is natural resources too. Through Plan A, we are evolving a more sustainable way of retailing. Plan A influences every stage of our planning, and infuses all that we do.

Outcome: By strengthening our financial position through the delivery of improved profits and strong cash flow, we are improving returns to shareholders.

DEVELOP & DESIGN

Activities: By cultivating talent and harnessing our people's ideas, we can continue to develop the delicious and stylish products that our customers love. 65% of our clothing ranges are now designed in-house and this will rise to 70% as we continue to create value from our intellectual capital. The skills in our Food team cover the breadth of the industry, from nutrition to marine biology, and our product developers are experts in scouring the world for the latest trends and flavours.

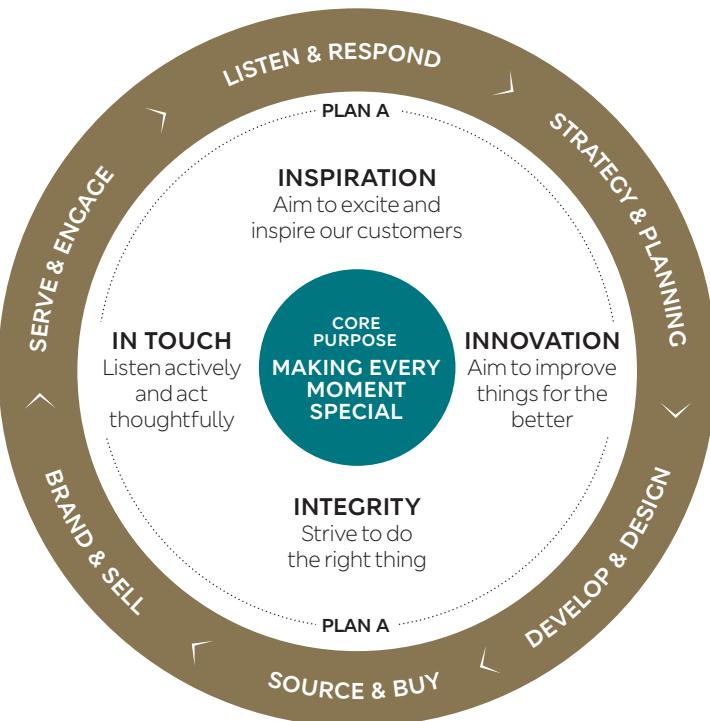
Outcome: Direct design gives us greater flexibility and control over how we source so we can better respond to the market and customer demand. The expertise in our Food team gives us the authority to deliver the new and exciting products that drive sales.

FIND OUT MORE

⊕ Read more about **Risk** on p27-29 ⊕ Read more about **KPIs** on p18-21

⊕ Read how our business model creates **Financial, Non-financial and Strategic value** on p12-13

OUR BUSINESS MODEL



OUR RESOURCES & RELATIONSHIPS

OUR PEOPLE

Developing our employees and their knowledge

OUR STAKEHOLDERS

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

NATURAL RESOURCES

Sourcing responsibly and using natural resources efficiently

THE M&S DIFFERENCE

SOURCE & BUY

Activities: A sustainable supply chain is key to creating sustainable value. Our team of 450 employees in nine regional sourcing offices in our key clothing sourcing markets, including Bangladesh and China, are responsible for sourcing our products efficiently and with integrity, working collaboratively with our buying and design teams. We have excellent relationships with our Food suppliers, and have worked with many of them for over 20 years, and some for over 75 years. All of our suppliers must adhere to our Global Sourcing Principles, which cover every element of workers' rights and working conditions.

Outcome: Our sourcing strategy is driving margin improvements and we are increasing the number of products with a Plan A quality.

BRAND & SELL

Activities: Our own brand model gives us a significant competitive advantage. Our products are developed by M&S for M&S. By selling our own unique products under our own brand, we forge lasting relationships with our customers. They know that we do the right thing: 73% of our products have a Plan A attribute. We sell our products through our own brand channels: M&S stores and M&S.com. The M&S brand is the thread that runs through everything we do.

Outcome: The value created by the M&S brand is our key point of difference and distinguishes us from our competitors.

SERVE & ENGAGE

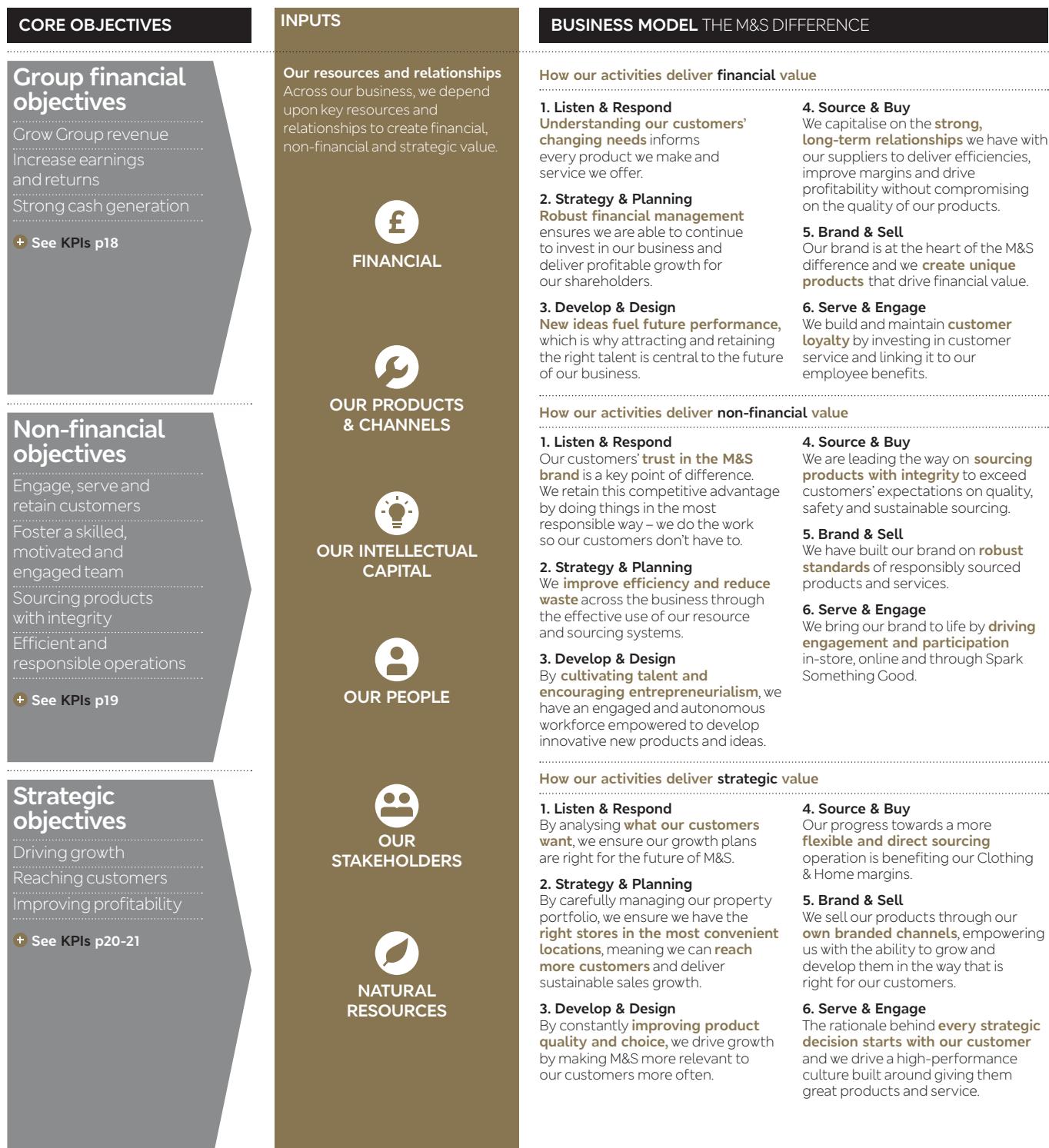
Activities: We know that our customers want great value every time they shop at M&S. Value is about much more than price; it's also about experience. So offering great customer service is absolutely crucial to maintaining customer loyalty, and we put it at the heart of how we train and reward our store teams. Along with serving our customers well, forging strong links with the communities in which they live creates long-term value. By supporting causes close to our customers' and our people's hearts, we ensure that these key stakeholder groups work together for the good of their local neighbourhoods.

Outcome: We have an increasingly engaged workforce who live our values of Integrity and In Touch, and who are committed to our customers.

OUR BUSINESS

CONNECTED VALUE

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



⊕ Read more about our **Strategic Update** on p06-08 ⊕ Read more about our **Business model** on p10-11

⊕ Read more about **KPIs** on p18-21 ⊕ Read more about **Risk** on p27-29

RELATED RISK FACTORS	ACCOUNTABILITY	OUTPUTS	OUTCOMES
<p>Financial performance risks</p> <p>There are a number of risks related to how we deliver financial value:</p> <ul style="list-style-type: none"> 1. Clothing & Home transformation 2. Changing consumer behaviours 4. Clothing & Home supply chain and logistics network 5. IT integration 10. International <p>⊕ See Risk p28-29</p>	<p>Financial accountability</p> <pre> graph TD BOARD[BOARD] --> OC[OPERATING COMMITTEE] OC --> SLG[SENIOR LEADERSHIP GROUP] </pre> <p>⊕ See Governance on p42-46</p> <p>⊕ See Remuneration p52-53</p>	<p>Key financial measures</p> <ul style="list-style-type: none"> Group revenue Underlying Group PBT Underlying earnings per share Dividend per share Return on capital employed Free cash flow (pre dividend) <p>⊕ See KPIs p18</p>	<p>Financial value created</p> <p>Strong profits build strong cash position</p> <p>Returns to shareholders</p> <p>Taxes to government</p> <p>Increased investment opportunities</p> <p>Employee rewards</p>
<p>Non-financial performance risks</p> <p>There are a number of risks related to how we deliver non-financial value:</p> <ul style="list-style-type: none"> 1. Clothing & Home transformation 2. Changing consumer behaviours 3. Business transformation 7. Food safety and integrity 8. Clothing & Home ethical sourcing 9. Cyber/Information security <p>⊕ See Risk p28-29</p>	<p>Non-financial accountability</p> <pre> graph TD BOARD --> APC[ADVISORY PLAN A COMMITTEE] APC --> OPAC[OPERATIONAL PLAN A COMMITTEE] </pre> <p>⊕ See Plan A Report p24-25</p>	<p>Key non-financial measures</p> <ul style="list-style-type: none"> Total Food customers and average number of shops per customer Total Clothing & Home customers and average number of shops per customer Employee engagement score % of products with a Plan A quality A Greenhouse gas emissions (tonnes) Greenhouse gas emissions (psf) <p>⊕ See KPIs p19</p>	<p>Non-financial value created</p> <p>Culture where innovation and agility thrive</p> <p>Better trained and fully committed employees</p> <p>Stronger relationships with suppliers and communities</p> <p>Maintained and improved reputation with consumers</p>
<p>Strategic performance risks</p> <p>There are a number of risks related to how we deliver strategic value:</p> <ul style="list-style-type: none"> 1. Clothing & Home transformation 2. Changing consumer behaviours 3. Business transformation 4. Clothing & Home supply chain and logistics network 6. Food competition 10. International 11. M&S.com business resilience <p>⊕ See Risk p28-29</p>	<p>Strategic accountability</p> <pre> graph TD BOARD[BOARD] --> OC[OPERATING COMMITTEE] OC --> SLG[SENIOR LEADERSHIP GROUP] </pre> <p>⊕ See Governance on p42-46</p> <p>⊕ See Remuneration p52-53</p>	<p>Key strategic measures</p> <ul style="list-style-type: none"> Food UK revenue Food gross margin Food LFL sales growth UK space growth – Food Clothing & Home UK revenue Clothing & Home gross margin Clothing & Home UK LFL sales growth International sales International operating profit International space growth M&S.com sales M&S.com weekly site visits <p>⊕ See KPIs p20-21</p>	<p>Strategic value created</p> <p>Growth in sales, product range and presence</p> <p>Supply chain efficiency</p> <p>Increased customer base with broadening appeal</p> <p>A more dynamic, flexible and agile business, delivering stronger margins</p>

OUR PERFORMANCE

MARKETPLACE

We are operating in changing times, so it is crucial that **we listen to our customers and keep a close eye on global trends**. Our Customer Insight Unit (CIU) analyses responses from 60,000 customers per month. By combining their views with detailed market research and customer analytics, we can **identify what is influencing shopping behaviour** and ensure **we stay relevant to our customers**.

OVERVIEW

From a high earlier in the year, consumer confidence declined at the tail end of the year as competing factors played on people's minds. On the one hand, the building blocks of the UK economy have remained solid: house prices have risen, interest rates have remained low and unemployment has fallen. On the other hand, numerous macro factors have generated wariness. Uncertainty over the upcoming EU referendum has caused people to feel unsettled. Cracks in the global economy and fears over terrorism have also weighed on sentiment.

These differing perspectives were reflected in our CIU research. While customers told us they were feeling more optimistic about their personal financial situation, they were simultaneously feeling more cautious about the wider economic situation. This limited what they were prepared to spend.

UK FOOD

Growth in the UK food market has been sluggish this year due to the highly competitive market, and the discounters continued to grow market share. However, our Food division had another strong year, with sales continuing to grow ahead of the market. Our customers told us they love M&S food for being special and different, and our performance saw our market share strengthen from 4.1% to 4.3%.

Customers told us that newness is really important to them and we continued to innovate, introducing 1,700 lines over the year. In an increasingly homogenised market, our quality and uniqueness are crucial points of difference.

Events remained significant for us, from seasonal celebrations like Christmas, where we saw record sales in the week leading up to Christmas Day, and Mother's Day, where we had record sales, to special occasions like a family barbecue. Last summer's Tastes of the British Isles range celebrated our food's provenance. This resonated with customers – sales rose 26% compared to the equivalent range in the previous year.

UK CLOTHING & HOME

The UK clothing market grew slowly this year, up 1.4%. In an already competitive market, the high street faced additional pressures from intense promotional activity and difficult weather patterns – it was wet in the summer and warm in the autumn.

Our Clothing division was affected by both these factors, and sales fell by 2.2%. However, our customers also told us that many of the problems were self-inflicted. Too many shoppers found it hard to locate what they were looking for in our stores. They also said they could not rely on M&S for their core wardrobe pieces. We are listening to our customers and work is underway to set this right. Customers continued to be impressed by our service; our store employees were recognised for being helpful and polite, and the overall service measure in our customer satisfaction survey was the highest ever.

HOW OUR UK CUSTOMERS SHOP

How consumers shop continues to change. Britons are the biggest buyers of clothes online in Europe. Furthermore, they are shopping across different channels like never before. Today's shopper may browse on a tablet and buy on a desktop computer, or research on a mobile and purchase on a laptop. Dual-screening in the evening, where customers are watching television whilst shopping on their tablet, has become the norm.

As a connected retailer, we need to be as adaptable as our customers. Our research shows that tablets are particularly significant, with tablet ownership at 48% for 35-50 year olds.

Sales through tablets and mobiles grew by 28% and 85% respectively. Customers said they find our sites inspirational, with intuitive designs and great photography. 60% of M&S.com sales are delivered through our Shop Your Way service where customers collect their order in store. This has increased by 2% on last year, showing that convenience counts.

Customers also told us they want ranges tailored to their shopping needs and in convenient locations. Our diverse store portfolio is well set up to meet this need, whether customers are shopping for dinner that evening in a railway station Simply Food or visiting one of our town centre Food Halls in preparation for a special event.

Technology does not just increase convenience – it also allows personalisation. Our Sparks membership club allows us to tailor offers to our most loyal customers, rewarding them with points in the process. We continue to improve the personalisation of our approach to ensure that it offers members something distinct from traditional loyalty schemes.

INTERNATIONAL

A challenging global environment of unfavourable currency movements, falling commodity prices, geopolitical unrest and a faltering Chinese economy impacted our international profits. We are working on understanding more about our international customers. However, we do know recognition of the M&S brand is strong overseas and the international M&S London logo is viewed as representing a stylish Britishness that resonates well. Sales showed our food is celebrated overseas.

CONSUMER CONFIDENCE INDEX



OUR PERFORMANCE

OPERATING PERFORMANCE

OUR PRODUCTS – FOOD

Special. New. Different. These are the attributes that set our Food business apart, and were the reasons behind another strong performance this year. Sales rose by 3.6%, to £5.4bn, and we once again grew ahead of the market. Our aim of making every food moment special was achieved through the newness and quality of our products. In a challenging and deflationary market, our market share rose to 4.3%.

Our strategic focus this year was on offering real choice and greater convenience for our customers. We concentrated on ensuring that each store sold a range that was appropriate to its location and size. The proportion of our customers who bought food for today was 42%, almost four times higher than at our larger rivals, so we rolled out new formats with a strategic focus on convenience, including a new layout for some of our smaller Simply Food stores, which focuses more on our Food On The Move offer. In total, we opened 75 Simply Food stores in the UK and seven overseas.

Prioritising availability is key to ensuring our customers are able to buy what they want, when they want. Getting the balance right is a complex equation and this resulted in slightly higher levels of waste during the wet weather in the summer and in the run up to Christmas, when we stocked our stores in line with the trend of our customers shopping increasingly closer to Christmas itself. This put some pressure on margins but this was offset by our ongoing work to drive operational efficiencies.

We introduced 1,700 new products, equivalent to 25% of our entire range. Our unrivalled innovation means that only 10% of our products are directly comparable to our competitors'. This sets us apart from the supermarkets. Customers looking for the convenience of incredible prepared food loved our new products, whether we were introducing new cuisines or reformulating old favourites. Under our Taste umbrella, we launched new ranges which included Greek, Lebanese and Spanish prepared meals. We improved our Indian range and redeveloped our pizzas. Sales of our top-tier pizzas – now prepared in wood-fired stone ovens – rose 28% on

last year. We had a strong festive period, with sales up 17% in the Christmas week compared to the same week last year. Our scores on quality over this period were among the highest ever and we received more awards than any other retailer in Tried & Tested-style product press reviews.

Health is a primary concern for our customers, and a big growth area for us. The approach to healthy eating has moved beyond short-term dieting and consumers are now looking for ways to follow everyday healthier lifestyles. So our product development team has been working on enabling our customers to make healthier choices. All of our bread now has added fibre and vitamin D, and we removed confectionary from till points, replacing it with our new Healthy Snacking range, in which all items are 'Eat Well' in regards to fat, calories and salt.

R Maintaining our point of difference in a competitive market is central to the ongoing success of our Food business. Mitigating the impact of a changing competitor landscape runs through every element of our Food strategy, from our focus on product innovation and newness to a store expansion plan shaped around offering even more convenience for our customers.

A In October, we announced a nationwide unsold food redistribution scheme to connect stores with local charities. The scheme, now live in all our owned stores, will help us achieve our Plan A target of reducing like-for-like food waste by 20% by 2020. Separately, 48% of our product volume now comes from factories that meet our Silver or Gold sustainability benchmarking standard, while 73% of our food items have a Plan A quality, for example they are Fairtrade, organic or help our customers choose a healthier lifestyle.

OUR PRODUCTS – CLOTHING & HOME

Our priorities in Clothing & Home were to improve our gross margin and grow our sales. Whilst we achieved the former, with a 245bps increase, driven by improved sourcing capabilities, we did not deliver on the latter. Sales fell by 2.2%, which impacted our market share in key categories. This performance was unsatisfactory. The high

street clothing market had a difficult year, with heavy promotional cycles and unusual weather patterns. But our performance highlighted a number of challenges with our core clothing offer and these were compounded by failures in execution.

To address this, we have set up a number of cross-business unit workstreams to review everything we do, from our products to our prices to our processes. These projects are ongoing, but we have already implemented some changes. In order to further improve our styling, we decided that it was important to have one clear vision of our female customers. So we consolidated the Womenswear, Lingerie and Beauty businesses under one Director and appointed a Design Director for these divisions, with the aim of offering our female customers greater consistency. The new ranges will arrive in store later this summer, and we are confident that our customers will notice the difference.

Our sourcing continues to improve, and over 65% of all our products are now created, designed and sourced in-house, with a target of 70%. This has led to greater collaboration between our design, buying and regional sourcing teams; a key factor in the gross margin improvement. At the same time, our customers told us our value perceptions were slipping so we have been sharpening prices across our core ranges to ensure we remain competitive with the market – for example, we lowered prices on over 300 products in our Spring Summer 2016 range. We are also working to improve our availability and ensure we are buying in the right mix of breadth and depth – our average launch availability for Spring Summer 2016 was 84% compared to 61% for Spring Summer 2015.

We did enjoy a number of successes this year. For example we achieved a record market share of 33% in bras and 26.8% in lingerie. We announced the launch of 'M&S &'; a series of unique collaborations with some of today's most exciting designers, brands and fashion icons. The first collaboration – Archive by Alexa Chung – saw 34,000 customers register their interest. And, despite the dips in market share, we remained the overall market leader in clothing and footwear.

OPERATING PERFORMANCE CONTINUED

R A We take a rigorous approach to maintaining strict ethical standards in our supply chain. The standards we expect from our suppliers are clearly defined and our regional teams in all the areas we source from regularly visit our suppliers' factories to ensure our standards are upheld. Since 2010 we have trained over 762,000 supply chain workers in subjects such as financial literacy, worker rights and healthcare. We understand that when people are treated with respect, work in decent conditions and earn fair rates of pay, they, their families and their companies benefit. Ultimately, our customers benefit too, as they can have the peace of mind knowing that we are sourcing our products in the right way.

INTERNATIONAL

Our International business had a challenging year. We now operate in 58 markets, with 468 international stores and an online presence in 21 markets. Like-for-like sales in our owned businesses rose by 1%. However, the combination of Euro devaluation, challenging macro-economic environments and operational infrastructure challenges impacted profits, which fell 39.6%. Chinese economic growth slowed, which affected the number of Chinese tourists visiting Hong Kong; geopolitical unrest hit our franchise stores in Russia, Turkey and Ukraine; and falling oil prices impacted franchise stores in the Middle East. Our European performance was hit by the adverse exchange rate as we absorbed the additional costs rather than pass them on to customers in higher prices. We closed our 12 stores in the Balkans, and a number of stores in Western Europe and China

underperformed. As a result, overall performance was behind our expectations and this resulted in an impairment charge of £102.4m, which significantly impacted statutory profit.

Whilst our Food sales grew by 23.4%, our international performance in Clothing & Home was not satisfactory. Our exposure to emerging markets and weaker consumer demand will remain into 2016/17. Some of the internal issues that affected our Clothing & Home business in the UK were also felt in our International operations. We are working hard to improve our international supply chain as we suffered from availability issues in some territories.

Despite these challenges, we remain committed to the long-term opportunities that exist internationally and we continue to develop the shopping experience. We introduced a boutique in-store format at our new Brussels flagship and rolled this out successfully to a handful of stores in Asia, including our first store in Beijing. Our Indian business continued to perform strongly and delivered double digit like-for-like growth. We opened eight new stores in India and it now has the largest number of M&S stores outside the UK.

We continued to expand our standalone Food presence internationally, targeting Hong Kong and Western Europe; with seven openings, more customers now have access to our high-quality, differentiated food offer.

As consumers the world over are increasingly choosing to shop online, we are embracing this channel shift and taking M&S into new markets in a capital-light,

low-risk way. Whilst still a relatively small part of our business, our international online business performed well. We launched owned websites in seven countries, including Australia, and our franchise partners also launched hybrid 'bricks and clicks' strategies. We experienced solid growth with the T-Mall marketplace in China and expanded on the leading marketplaces in India, Myntra and Flipkart, benefiting from their scale, infrastructure and local expertise.

R Testing global economic conditions pose a potential risk to our business. We benefit from the local knowledge provided by franchise and joint venture partnerships and ensure we have a sufficiently broad geographical spread. We are looking at every part of our International operations to make sure our strategy is fit for the future.

SERVING OUR CUSTOMERS

We constantly monitor and analyse how our customers shop to ensure we adapt to their changing behaviour. We want to give customers as simple and enjoyable a shopping experience as possible, whichever way they choose to shop with us. Some 7.4 million customers shopped through M&S.com this year, our highest ever number. The website saw record levels of customer satisfaction. Sales increased by 23.4%, ahead of the market, and we grew our online market share.

Two years after its launch, M&S.com is easier to navigate and richer in content. Customers like our strong editorial voice and find the site both aspirational and



A We launched a new campaign to raise £13m over the next five years in support of Breast Cancer Now. It featured seven women whose lives have been affected by the disease. In collaboration with Rosie Huntington-Whiteley, we launched a post-surgery bra; the first in the Rosie for Autograph range.



Our creative digital division, M&S Venture Lab, uses lean start-up techniques to experiment with ways to improve the shopping experience for our customers. Projects include TryTuesday.com, an online personal stylist service, and the Cook with M&S recipe app, which includes clever features like timers and a step-by-step cooking mode.



A We teamed up with Style for Soldiers as the charity's official tailoring partner, providing suits and shoes for injured servicemen trying to get back into work and embarking on new careers. David Gandy, designer of our successful David Gandy for Autograph swimwear and loungewear range, is also an ambassador to the charity.

inspirational – we saw a 33% increase in visits to our Style & Living editorial section as we doubled the number of editorial features, providing fashion, beauty, home and food inspiration for our customers. This benefits sales – the average order value from customers who read Style & Living is higher. Our teams behind the scenes – from online trading to digital marketing – are constantly looking at how we can make the site better and easier to shop. We have increased the site's speed and improved navigation resulting in improved customer satisfaction scores.

M&S is a connected retailer; people shop with us through a variety of channels, from tablets to phones to desktop computers to our stores. Often, their journey will start in one channel and end in another. Mobile is our fastest growing channel – sales through mobile phones grew by 85% this year – and we update our mobile site daily to ensure we are constantly improving the customer journey. Despite this growth, 60% of all online sales are still picked up in store through our Shop Your Way service. This tells us that our customers love the convenience of multi-channel shopping.

R As our online business grows, the smooth running of M&S.com is essential to our success. Our software engineers can update our site daily, and our command centres in the UK and Chennai run 24/7 to ensure M&S.com always meets our customers' expectations. We treat the security of our customers and their personal information very seriously. We constantly monitor the ongoing developments in cyber security and our

website is overseen by a dedicated security team who ensure we have the controls in place to protect our customers.

In our stores, we have focused on providing inspirational shopping environments. We have a total of 914 UK stores: 302 full line, 222 owned Simply Food, 349 franchise Simply Food, and 41 Outlet stores. Over the year, we opened seven new full line stores. We also continue to manage our estate to ensure that we are best-positioned in a local market and in the places that are convenient for our customers. As a result, we closed 20 stores, which included relocating four stores to better sites and consolidating our two separate Peterborough stores into one.

Service remains key. Last year, we introduced an employee bonus linked to service, and we are pleased that our till-based customer satisfaction survey scores were the highest ever. Our employees have continued to focus on PACK – Presentation, Availability, Cross-selling and service and Knowledge – to ensure that our stores and our service are the best they can be.

ENGAGING OUR CUSTOMERS

Our marketing activity continued to inspire our customers across our Food and Clothing & Home products by bringing them together under the 'Only M&S' master brand. Inspired by the success of our 'Adventures In' campaign, which was praised by our customers for the way it celebrated our quality, creativity and expertise in Food, we launched 'The Art Of' to celebrate the craftsmanship in our Clothing & Home

ranges. Both campaigns continued to have a strong social element. We now reach over 5 million consumers through our various social media platforms, up from 2.6 million last year. The weekly readership for Style & Living has reached 200,000. Our expanding reach enables us to build positive sentiment and create an ongoing buzz around the M&S brand and our most popular products.

Our Sparks members' club is one of the most important customer engagement initiatives we've launched in years. Since its launch in October, Sparks has attracted 4 million members, ranging in age from 16 to 103. Through tailored offers and personalised content, we can reward our loyal customers. In the months prior to launch, we road tested and refined Sparks with the help of over 100,000 customers. We continue to look at how we can enhance the proposition by further improving the personalisation and tailoring it even more to our individual customers. Sparks has a compelling business rationale too. It helps us to increase members' frequency of purchase, encourages shopping between channels and incentivises cross-buying. Visits to the M&S website have increased from an average of 6.5 million per week when it launched to 11.5 million per week now.

A Sparks ties in with Plan A too: members earn 50 Sparks points each time they Shwop unwanted clothing items and we donate 1p to a charity of their choice every time they shop with M&S. Since it launched, we have donated £649,000 to our charity partners, including UNICEF and Macmillan Cancer Support.



We launched an organic whole drinking coconut complete with a unique patented ring-pull. Made from recycled coconut husk fibre and natural resin, the ring-pull is applied directly to the fruit, resulting in the only coconut water on the market that you can drink straight from the coconut.



We improved our Shop Your Way service to make it even more convenient for our customers. We increased the number of stores where customers can collect orders to include our stores in transport hubs, speeded up how long it takes to collect a parcel, and extended ordering times so customers can now place their order up to 8pm for free, next day store collection.



We continued to improve our store environments with the roll-out of our Kids and Baby concepts to an extra 16 stores. We also launched a new Lingerie scheme with a more modern intimate look, which we have put in 17 stores, including Marble Arch and the Pantheon.

OUR PERFORMANCE

KEY PERFORMANCE INDICATORS

GROUP FINANCIAL OBJECTIVES										
OBJECTIVE	KPI	2015/16 PERFORMANCE (52 weeks to 26 March 2016)								
Grow Group revenue	GROUP REVENUE Definition Total Group sales, including retail sales for owned businesses and wholesale sales to franchise partners.	<p>£10.4bn <small>+0.8%</small></p> <p>GROUP REVENUE £bn</p> <table> <tbody> <tr><td>12/13</td><td>10.0</td></tr> <tr><td>13/14</td><td>10.3</td></tr> <tr><td>14/15</td><td>10.3</td></tr> <tr><td>15/16</td><td>10.4</td></tr> </tbody> </table> <p>£</p>	12/13	10.0	13/14	10.3	14/15	10.3	15/16	10.4
12/13	10.0									
13/14	10.3									
14/15	10.3									
15/16	10.4									
	✓	Performance Group revenues were slightly up this year mainly driven by the strong performance in our Food business.								
Increase earnings and returns	UNDERLYING GROUP PROFIT BEFORE TAX Definition Underlying profit provides additional information on performance, adjusting for income and significant one-off charges.	<p>£684.1m <small>+3.5%</small></p> <p>UNDERLYING GROUP PROFIT BEFORE TAX £m</p> <table> <tbody> <tr><td>12/13</td><td>648.1</td></tr> <tr><td>13/14</td><td>622.9</td></tr> <tr><td>14/15</td><td>661.2</td></tr> <tr><td>15/16</td><td>684.1</td></tr> </tbody> </table> <p>£</p>	12/13	648.1	13/14	622.9	14/15	661.2	15/16	684.1
12/13	648.1									
13/14	622.9									
14/15	661.2									
15/16	684.1									
	✓	Performance Underlying PBT grew as a result of good growth in the UK business, from increases in both Food and Clothing & Home profit and tight cost control, although this was partly offset by a fall in profit in our International business.								
	RETURN ON CAPITAL EMPLOYED (ROCE) Definition Return on capital employed is a relative profit measure of the returns from net operating assets.	<p>15.0%</p> <p>RETURN ON CAPITAL EMPLOYED %</p> <table> <tbody> <tr><td>12/13</td><td>15.8</td></tr> <tr><td>13/14</td><td>14.8</td></tr> <tr><td>14/15</td><td>14.7</td></tr> <tr><td>15/16</td><td>15.0</td></tr> </tbody> </table> <p>£</p>	12/13	15.8	13/14	14.8	14/15	14.7	15/16	15.0
12/13	15.8									
13/14	14.8									
14/15	14.7									
15/16	15.0									
	✓	Performance The increase in ROCE from last year primarily reflects the increase in underlying earnings before interest and tax as well as a small decrease in the average net operating assets.								
	UNDERLYING EARNINGS PER SHARE Definition Earnings per Share (EPS) is the underlying profit divided by the average number of ordinary shares in issue.	<p>34.8p <small>+5.1%</small></p> <p>UNDERLYING EARNINGS PER SHARE p</p> <table> <tbody> <tr><td>12/13</td><td>31.9</td></tr> <tr><td>13/14</td><td>32.2</td></tr> <tr><td>14/15</td><td>33.1</td></tr> <tr><td>15/16</td><td>34.8</td></tr> </tbody> </table> <p>£</p>	12/13	31.9	13/14	32.2	14/15	33.1	15/16	34.8
12/13	31.9									
13/14	32.2									
14/15	33.1									
15/16	34.8									
	✓	Performance The increase in underlying EPS is a result of the increase in underlying profit. The weighted average number of shares in issue during the period was broadly flat year-on-year, at 1,635.9m (last year 1,635.6m).								
Strong cash generation	DIVIDEND PER SHARE Definition Dividend per share declared in respect of the year.	<p>18.7p <small>+0.7p</small></p> <p>DIVIDEND PER SHARE p</p> <table> <tbody> <tr><td>12/13</td><td>17.0</td></tr> <tr><td>13/14</td><td>17.0</td></tr> <tr><td>14/15</td><td>18.0</td></tr> <tr><td>15/16</td><td>18.7</td></tr> </tbody> </table> <p>£</p>	12/13	17.0	13/14	17.0	14/15	18.0	15/16	18.7
12/13	17.0									
13/14	17.0									
14/15	18.0									
15/16	18.7									
	✓	Performance The Board is recommending a final dividend of 11.9p per share, resulting in a total dividend of 18.7p, 0.7p above last year. In addition, a special dividend of 4.6p will be paid at the same time as the final dividend.								
	FREE CASH FLOW (PRE SHAREHOLDER RETURNS) (53 WEEKS) Definition Free cash flow is the net cash generated by the business in the period before returns to shareholders.	<p>£539.3m <small>+2.9%</small></p> <p>FREE CASH FLOW (PRE SHAREHOLDER RETURNS) £m</p> <table> <tbody> <tr><td>12/13</td><td>204.1</td></tr> <tr><td>13/14</td><td>427.9</td></tr> <tr><td>14/15</td><td>524.2</td></tr> <tr><td>15/16</td><td>539.3</td></tr> </tbody> </table> <p>£</p>	12/13	204.1	13/14	427.9	14/15	524.2	15/16	539.3
12/13	204.1									
13/14	427.9									
14/15	524.2									
15/16	539.3									
	✓	Performance We delivered strong free cash flow up 2.9% on last year due to the increase in EBITDA and reduced capital expenditure.								

KEY TO RESOURCES & RELATIONSHIPS AFFECTED



NON-FINANCIAL OBJECTIVES

OBJECTIVE	KPI	2015/16 PERFORMANCE		OUR BUSINESS
Engage, serve and retain our customers	FOOD Definition Total number of UK Food customers per year and average number of shops per customer resulting in a purchase across all UK shopping channels.	TOTAL CUSTOMERS 20.1m <small>+0.1m</small>	AVERAGE NUMBER OF SHOPS PER YEAR 22.5 <small>+1.9%</small>	Performance Our strategic focus on innovation, newness and convenience alongside our Simply Food store opening programme is encouraging more customers to shop with us more often.
	CLOTHING & HOME Definition Total number of UK Clothing & Home customers per year and average number of shops per customer resulting in a purchase across all UK shopping channels.	TOTAL CUSTOMERS 24.7m <small>-0.7m</small>	AVERAGE NUMBER OF SHOPS PER YEAR 7.6 <small>+0.8%</small>	Performance Clothing & Home performance was unsatisfactory. We grew the number of customers shopping through M&S.com but this was more than offset by a decline in customers in our stores.
Foster a skilled, motivated and engaged team	EMPLOYEE ENGAGEMENT Definition Engagement is a key driver of performance. Our Your Say Survey looks at the key drivers of employee engagement such as pride in M&S and our products, feelings about M&S as an employer and the role of line managers.	78% <small>+1%</small>		Performance The annual survey was completed by 76% of employees. Employee engagement results were positive, and slightly up on the year.
Source products with integrity	PRODUCTS WITH A PLAN A QUALITY 	73% <small>+9%</small> 	M&S products 2014/15 64% 2020 target 100%	Performance This represents an improvement of 9% over last year. Our target is to have least one Plan A quality in all M&S Clothing & Home and Food products by 2020. This year 73% of M&S Food products (last year: 63%) and 74% of Clothing & Home products (last year: 71%) have at least one Plan A quality.
Efficient and responsible operations	GROSS GREENHOUSE GAS EMISSIONS 	566,000 <small>-4%</small> CO₂e		Performance We achieved a 4% reduction, mainly through improved energy efficiency. We also maintained our position of carbon neutrality (zero net emissions) by sourcing renewable energy and carbon offsets.
	GROSS GREENHOUSE GAS EMISSIONS PER 1,000 SQ FT 	29 tCO₂e/ 1,000sq ft <small>-3%</small>		Performance We achieved a 3% per sq ft improvement, mainly through improved energy efficiency. This has contributed towards the 4% reduction in total gross emissions.

KEY PERFORMANCE INDICATORS
CONTINUED

⊕ Read about our **Strategic Update** on p06-08 ⊕ Read more on **Remuneration** on p58

⊕ Read about our **Resources & Relationships** on p10-13

STRATEGIC OBJECTIVES			
OBJECTIVE	KPI	FOOD (52 WEEKS)	CLOTHING & HOME (52 WEEKS)
Driving growth	SALES REVENUE	<p>UK REVENUE £5.4bn <small>+3.6%</small></p> <p>2014/15: £5.2bn</p> <p>Definition UK Food sales including our owned business and sales to our UK franchisees.</p> <p>Performance Our strategy to be special, new and different continued to set us apart in a very challenging and deflationary market.</p> <p>£ ⚡💡</p>	<p>UK REVENUE £3.9bn <small>-2.2%</small></p> <p>2014/15: £4.0bn</p> <p>Definition UK Clothing & Home sales for our owned business.</p> <p>Performance Trading conditions through the year remained challenging, with unseasonal weather resulting in high levels of promotional activity. Nevertheless, our performance highlighted a number of challenges with our products and execution, and we have announced our plan to recover and grow sales.</p> <p>£ ⚡💡</p>
Reaching customers	SALES GROWTH/ SPACE GROWTH/ ONLINE VISITS	<p>UK LFL SALES GROWTH +0.2%</p> <p>Definition Sales growth from those stores that have been open for 12 months.</p> <p>Performance We outperformed the market and grew our market share to 4.3%.</p> <p>UK FOOD SPACE GROWTH +3.9%</p> <p>Definition Increase in weighted average Food selling space.</p> <p>Performance We opened 25 owned Simply Food stores, 50 new franchise locations and seven new full line stores.</p> <p>£ ⚡💡</p>	<p>UK LFL SALES GROWTH -2.9%</p> <p>Definition Sales growth from those stores that have been open for 12 months.</p> <p>Performance Although we lowered the sales decline in Clothing & Home in the last quarter, our sales performance was unsatisfactory.</p> <p>£ ⚡💡</p>
Improving profitability	GROSS MARGIN/ OPERATING PROFIT	<p>UK GROSS MARGIN 32.8% <small>0bps</small></p> <p>Definition Gross margin is the percentage of revenue retained after costs for producing and transporting goods.</p> <p>Performance Persistent deflation from price investment and an increase in waste costs put pressure on margin. However, these were mitigated through benefits realised from volume growth and ongoing operational efficiencies.</p> <p>£ ⚡💡</p>	<p>UK GROSS MARGIN 55.1% <small>+245bps</small></p> <p>Definition Gross margin is the percentage of revenue retained after costs for producing and transporting goods.</p> <p>Performance Strong improvement in gross margin was driven by improvement in the buying margin as we continue to make progress in our sourcing initiatives and implement a more flexible and direct sourcing operation.</p> <p>£ ⚡💡</p>

M&S.COM (52 WEEKS)

TOTAL ONLINE SALES¹**£791.5m**^{+23.4%}

2014/15: £641.3m

Definition Total M&S.com revenue including web to home and Shop Your Way transactions.**Performance** We grew sales as we continued to refine and develop the infrastructure we have put in place over the past few years. Our sales growth was ahead of the market and we are now the second largest online clothing retailer.

WEEKLY SITE VISITS

7.8m^{+28.5%}**Definition** Weekly visits to our UK desktop, tablet, mobile sites and app.**Performance** 7.4 million customers shopped online with us this year, our highest number yet. Customer satisfaction scores improved as we constantly refined the customer experience, making the site quicker and easier to navigate.

INTERNATIONAL (52 WEEKS)

REVENUE

£1.1bn^{-2.0%}

2014/15: £1.1bn

Definition Sales from the International business including sales for owned business and sales to franchisees.**Performance** Our International business had a challenging year, although key markets including Ireland and Greece returned to like-for-like growth and India performed well, delivering a double digit sales increase.

SPACE GROWTH

1.4%**Definition** Year-on-year increase in weighted average selling space.**Performance** International space growth was lower than previous years, as there were fewer new store openings due to the challenging macro-economic environment. We also closed our 12 stores in the Balkans.

UNDERLYING OPERATING PROFIT

£55.8m^{-39.6%}**Definition** Underlying operating profit provides additional information on performance adjusting for income and significant one-off charges.**Performance** Profit was impacted by a combination of Euro devaluation, challenging macro-economic environments and infrastructure challenges.

LOOKING AHEAD

Food We believe that our core strategy on Food is clear and that our focus on quality, innovation and choice is right and will continue to deliver sustainable, profitable growth. We expect the roll-out of our standalone Food stores to continue to drive sales growth, with space forecast to grow by c. 5% in the year ahead. Given ongoing competitive pressure, we expect gross margin to remain level, as we continue to re-invest operational efficiencies into price, quality and innovation.**Clothing & Home** We are confident the actions we're taking to address sales performance will deliver results, however it will take time for our customers to notice the improvements and change their shopping behaviour. Given current market conditions and our decision to invest in price and reduce promotional activity, we expect to see the same sales trend as last year. We will continue to realise margin gains from ongoing sourcing initiatives. However, currency remains a headwind and we expect this, combined with our decision to invest in price, to deliver an increase of c. 50-100bps.**International** We expect the factors which impacted profits this year to persist through 2016/17. We see further pressure from the Euro exchange rate, as well as weak trading conditions in Western Europe. The macro-economic backdrop in most of our franchise markets is not improving, and we will continue to work with our franchise partners to support them through these challenging times. We are still reviewing the shape of our International business and will report back in the autumn.**Financial management** Tight control of costs remains a priority and we will continue to focus on driving efficiencies. Operating costs are expected to increase by c. 3.5%. We will invest in store staffing to give our customers great service. In addition, we are facing higher costs as a result of new space and increased depreciation as well as volume growth and inflation. We are continuing with our focus on cash generation. Capital expenditure is expected to be lower at c. £450m.

1. M&S.com sales for the year ended 2014/15 have been restated to incorporate statutory adjustments and a change in allocation of furniture sales between channels. M&S.com sales for 2015/16 have been prepared on a consistent basis.

OUR PERFORMANCE

FINANCIAL REVIEW



We are committed to **delivering profit for our shareholders** by putting our customers at the heart of everything we do.

HELEN WEIR CHIEF FINANCE OFFICER

53 WEEK YEAR

This year we are reporting on the 53 weeks to 2nd April 2016. Profit metrics are provided on a 53 week basis in the Financial Statements. To provide a meaningful comparison with last year's 52 week period, all operating performance commentary in this section is stated on a 52 week basis, unless otherwise noted.

On a 53 week basis, Group underlying profit before tax was £689.6m, up 4.3%. Statutory profit before tax fell by 18.5% to £488.8m as a result of a number of one off items, details of which are set out below.

STRATEGIC PRIORITIES

We remained focused on delivering value for our shareholders through the four key priorities we set out at the start of the year:

- Food sales growth;
- Improve Clothing & Home performance;
- Clothing & Home gross margin improvement;
- Strong cash generation.

We performed well against three of the four priorities, however, our Clothing & Home sales performance is still not satisfactory.

In a tough grocery market, we continued to grow our Food business, with revenue up 3.6% at £5.4bn. Our store opening programme is driving sales growth – we opened 75 standalone Food stores in the year, as well as seven full line stores, and grew our market share to 4.3%.

UK Clothing & Home revenue was down 2.2%, at £3.9bn. Whilst the market is increasingly challenging with low growth and high levels of promotional activity, we've acknowledged that this sales performance was unsatisfactory. We know that we need to improve our products and execution and, as set out on pages 6-8, we have a clear plan in place to address these issues.

Clothing & Home gross margin increased by 245 bps to 55.1% driven mainly by gains in buying margin as a result of our continued progress on sourcing more products directly and the benefits of our dollar hedging approach.

We delivered strong free cash flow, pre-shareholder returns, of £539.3m, up 2.9% on last year due to tight control over costs and capital.

For the second year, we have increased the full year dividend to 18.7p, up 3.9% on last year, in line with profit growth. We also announced a special dividend of 4.6p per share (c.£75m) which will be paid to shareholders at the same time as the final dividend.

OPERATING PERFORMANCE

We continued to manage our costs tightly with UK operating costs up 1.8%. This increase was driven by growth in Food selling space, higher depreciation costs and additional employee incentive costs. These were partially offset by productivity improvements in a number of areas including store staffing and supply chain.

M&S Bank profits were slightly down 0.4% at £59.9m. Overall operating performance was strong, but this was offset by the reduction in interchange fees.

International operating profit was down 39.6% due to challenging trading conditions and ongoing Euro currency pressure in our owned markets and discounts for franchise partners operating in markets affected by difficult macro-economic conditions. Some internal availability challenges also impacted performance.

Overall, Group underlying profit before tax was £684.1m, up 3.5%. Group profit was £483.3m, down 19.5%, as a result of £200.8m of non-underlying items. £102.4m of these charges related to our International business. £50.3m related to further M&S Bank provisions for insurance mis-selling and the balance largely related to impairment of certain assets and UK stores as part of our UK store portfolio review. There are further details on page 24 and in Note 5 on page 97-98.

In February, we announced the outcome of the triennial actuarial valuation of our UK defined benefit (DB) pension scheme as at 31 March 2015. This resulted in a statutory surplus of £204m, an improvement on the previous deficit of £290m (as at 31st March 2012). This improved funding position reflects the additional contributions made since the 2012 valuation and strong investment returns from the Scheme's assets.

We have proposed changes to our UK DB pension scheme, which has been closed to new members since 2002, to close it for future accrual. Under these proposals, we would enrol current defined benefit members in our defined contribution savings plan from April 2017.

⊕ **Further details in note 30 on p121**

STRONG CAPITAL MANAGEMENT AND DELIVERING SHAREHOLDER RETURNS

Driving value for shareholders underpins our business strategy and we remain committed to delivering strong shareholder returns. We are making good progress against the clear capital allocation policy set out by the Board last year:

Commitment to a strong balance sheet, including maintaining an investment grade rating:

- Net debt/EBITDA ratio of 1.6x, comfortably within our ratio range of 2.0x-1.5x;
- BBB minus rating;

FIND OUT MORE

+ See our KPIs on p18-21 + See our Strategic Update on p06-08

+ Read about our operating performance on p15-17 + See how performance links to Remuneration on p58

Continuing to invest in the business growth, underpinned by strong investment disciplines:

- Reduced net capital expenditure excluding acquisitions of £468.9m, down by £57.7m;
- Ongoing investment in multi-year infrastructure projects in IT and logistics to make M&S a more flexible organisation that can move with speed and agility this year;
- Strong returns from new space openings.

Progressive dividend policy, broadly twice covered by earnings:

- Full year dividend at 18.7p, up 3.9% on last year in line with our progressive policy.

Returning any surplus cash generated to shareholders on a regular basis:

- Share buyback programme returned £150m to shareholders through purchasing 31.6m shares;
- Announced a special dividend amounting to 4.6p per share (c.£75m) for the first half of the 2016/17 financial year.

SUMMARY OF RESULTS

	53 weeks ended		52 weeks ended	
	2 Apr 16 £m	% var	26 Mar 16 £m	28 Mar 15 £m
Group revenue¹	10,555.4	+2.4	10,391.0	10,311.4
UK	9,470.8	+2.7	9,324.8	9,223.1
International ¹	1,084.6	-0.3	1,066.2	1,088.3
Underlying operating profit	784.9	+2.9	777.6	762.5
UK	726.7	+8.4	721.8	670.2
International	58.2	-36.9	55.8	92.3
Underlying profit before tax	689.6	+4.3	684.1	661.2
Non-underlying items	(200.8)	n/a	(200.8)	(61.2)
Profit before tax	488.8	-18.5	483.3	600.0
Underlying basic earnings per share	35.0p	+5.7	34.8p	33.1p
Basic earnings per share	24.9p	-16.2	24.6p	29.7p
Dividend per share (declared)²	18.7p	+3.9	18.7p	18.0p

1. On reported currency basis.

2. Excluding special dividend.

GROUP REVENUE

Group revenues were up 0.8% (up 1.1% on a constant currency basis). UK revenues were up 1.1% in total with a like-for-like decrease of 1.1%. International revenues were down 2.0% (up 1.3% on constant currency basis).

GROSS MARGIN

UK gross margin was up 75bps at 42.1% as a result of the strong improvement in Clothing & Home.

Clothing & Home gross margin was up 245bps at 55.1%, driven by improvement in the buying margin as we continue to make progress in our sourcing initiatives and implement a more flexible and direct sourcing operation, and our dollar hedging approach. This has unlocked further benefits including better buying leverage and migration. Some of the buying margin gains were eroded by higher markdown costs due to more stock into sale and higher promotional costs, resulting from sales underperformance.

SUSTAINABLE REPORTING

This year, we have set out to produce an Annual Report that meets the guiding principles of integrated reporting by demonstrating the long-term sustainable value we create for our shareholders. This report therefore includes further clarity to our business model to better show the effective use of the resources and relationships relevant to our business and the new connected value spread on page 12. We have provided greater detail on the interdependencies in our business and how Plan A creates value. We have also mapped our principal risks against our business model to demonstrate the connectivity between the two.

We take our responsibility to pay our fair share of tax seriously and our approach is in keeping with our longstanding values and aligned to our shareholders' interests. There is detailed information on our tax contribution on page 24.

Food gross margin was level on the year at 32.8%. Investment in price and an increase in waste costs put pressure on margin. However, these were mitigated through benefits realised from volume growth and ongoing operational efficiencies from streamlining our supply chain processes.

OPERATING COSTS

	52 weeks ended		
	26 Mar 16 £m	28 Mar 15 £m	% var
Retail staffing	974.0	954.5	+2.0
Other retail costs	1,088.5	1,116.4	-2.5
Distribution	419.0	408.7	+2.5
Marketing and related	169.4	167.6	+1.1
Central costs	615.2	560.2	+9.8
Total	3,266.1	3,207.4	+1.8

OUR PERFORMANCE
FINANCIAL REVIEW CONTINUED

UK operating costs were up £58.7m (1.8%), with higher depreciation contributing £32.4m. Retail staffing costs were up due to growth in selling space and the annual pay review, partly offset by efficiencies from improved resource allocation. The decrease in other retail costs reflects savings from lower interchange fees and the renegotiation of key utilities and facilities contracts which more than offset higher costs from new space and depreciation. Distribution costs were up due to higher volumes in Food and M&S.com, which were greater than the savings from lower retail volumes in Clothing & Home. Marketing costs increased slightly due to additional investment in digital marketing including the launch of Sparks. Central costs were up largely due to higher IT depreciation and additional staff incentive costs, partially as a result of the release of employee benefit provisions last year.

INTERNATIONAL PERFORMANCE

	2015/16	2014/15	Var %	Var % (cc) ²
Sales	1,066.2	1,088.3	-2.0	1.3
Owned	741.8	747.0	-0.7	4.0
Franchise	324.4	341.3	-4.9	-4.2
Operating Profit	55.8	92.3	-39.6	-40.0
Owned ¹	(31.5)	0.0	n/a	n/a
Franchise ¹	87.3	92.3	-5.3	-3.3

1. Prior year numbers have been restated for a revised allocation of overheads to more accurately reflect business drivers.

2. Constant currency.

International profit fell by 39.6% to £55.8m primarily due to the weaker Euro which meant that the cost of goods in our owned European businesses increased. Competition in these markets meant that we were not able to pass on these higher costs in the form of price increases. The macro-economic pressures in a number of our franchise markets, most notably Turkey, Russia and the Middle East, have continued, resulting in lower franchise sales and margins.

UNDERLYING OPERATING PROFIT

Underlying group operating profit was £777.6m (last year £762.5m). UK operating profit was £721.8m, up 7.7%, driven by an improvement in both Clothing & Home and Food profitability.

NET FINANCE COSTS

	52 weeks ended	
	26 Mar 16 £m	28 Mar 15 £m
Interest payable	(99.5)	(99.8)
Interest income	5.8	5.0
Net interest payable	(93.7)	(94.8)
Pension net finance income	15.3	10.5
Unwinding of discount on partnership liability	(14.7)	(16.1)
Unwinding of discounts on financial instruments and provisions	(0.8)	(0.9)
Net finance cost	(93.5)	(101.3)

Net finance costs were down 7.7% due to increased pension net finance income as result of the net retirement benefit asset increase.

NON-UNDERLYING PROFIT ITEMS

	52 weeks ended	
	26 Mar 16 £m	28 Mar 15 £m
Net M&S Bank charges incurred in relation to the insurance mis-selling provision	(50.3)	(13.8)
Restructuring credits/(costs)	9.2	(4.6)
UK store review	(26.7)	–
UK one-off impairment costs	(23.7)	–
International – store closure costs and impairments	(31.6)	(37.2)
International – impairment of goodwill	(19.1)	–
International – other impairments	(51.7)	–
IAS 39 fair value movement of embedded derivative	(2.0)	1.3
Net gain on acquisition of joint venture holding Bradford warehouse	5.4	–
Profit/(loss) on disposal and impairment once commitment to closure	(10.3)	(6.9)
Adjustment to operating profit and profit before tax	(200.8)	(61.2)

Non-underlying adjustments to profit were a net charge £200.8m (last year £61.2m). The Group continues to incur charges in relation to M&S Bank insurance mis-selling provision (£50.3m).

Following the announcement of a £90m multi-year programme to improve the quality of the UK store estate, a £26.7m charge has been recognised in relation to UK store closures. A further £23.7m of asset impairments were incurred as a result of the review of our Clothing & Home strategy which meant that certain buying and merchandising systems were no longer required.

In the current year, £102.4m of charges have been recognised in the International business for store closure costs and impairments of goodwill and other assets due to underperformance and an uncertain outlook in a number of markets including Western Europe and Asia.

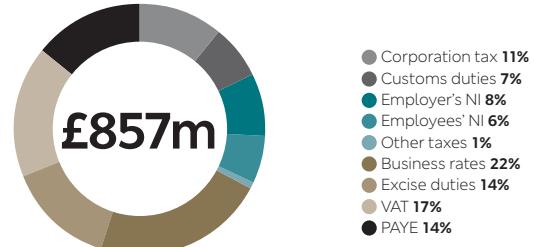
A net gain of £5.4m was recognised following the acquisition of the remaining 50% share of the joint venture holding the Bradford warehouse, representing a fair value gain of £27.1m on the revaluation of the existing investment partially offset by a loss of £21.7m on derecognition of the associated embedded derivative.

¹ Full details are disclosed in note 5 on p97-98.

TAXATION

The full year underlying effective tax rate was 17.2% (last year 18.9%). Statutory effective tax rate was 17.3% (last year 19.7%). It was lower in part owing to a one-off credit due to the restatement of our deferred tax liability to reflect a lower future UK Corporation Tax rate.

TOTAL TAX CONTRIBUTION



In 2016 our total cash tax contribution to the UK Exchequer was £857m (2015: £767m); split between taxes ultimately borne by the company of £419m (2015: £388m) (i.e. corporation tax, customs duties, employer's NIC, business rates and sundry taxes) and taxes attributable to the Company's economic activity collected on behalf of the government of £438m (2015: £379m) (i.e. PAYE, employees' NIC, value added tax, excise duties and sundry taxes).

UNDERLYING EARNINGS PER SHARE

Underlying basic earnings per share increased by 5.1% to 34.8p per share (increased 5.7% to 35.0p on a 53 week basis). The weighted average number of shares in issue during the period was 1,635.9m (last year 1,635.6m).

CAPITAL EXPENDITURE

	53 weeks ended 2 Apr 16 £m	52 weeks ended 28 Mar 15 £m
UK store environment	36.9	92.7
New UK stores	106.4	63.5
International	26.4	37.5
Supply chain	89.1	117.6
IT	161.1	156.2
Maintenance	79.6	94.5
Proceeds from property disposals	(30.6)	(35.4)
Total capital expenditure excluding acquisition	468.9	526.6
Bradford warehouse	56.2	–
Total capital expenditure	525.1	526.6

Total capital expenditure was level versus last year, however this includes £56.2m relating to the acquisition of the remaining 50% of the JV which owned the freehold of our Bradford warehouse.

Excluding this, capital expenditure was down, reflecting a trend towards a lower level of capex going forward.

Spend on the UK store environment has reduced due to the completion of many of our in-store initiatives to create a more inspiring environment for our customers. Key projects this year include the new Lingerie and Kidswear schemes and investment in Food, including our hospitality offer.

As at the year end, we traded from 17.0m square feet of selling space, an increase of c.1.6% (on a weighted average basis) as we opened 82 new stores and closed 20 stores. Within this, Food space grew by 3.9%, with 25 new owned Simply Food stores, 50 franchise and seven full line stores. Of the 20 closures, four were relocations to better sites as we improved the quality of the store estate for our customers. Clothing & Home space increased by 0.4% as the full line store openings more than offset the closures. International space increased by c. 1.4%, a reduction on previous years.

We continued to invest in supply chain and technology. In April 2016, we completed another milestone in the development of the strategic warehouse network with the opening of our repurposed Bradford warehouse as an automated store NDC for our Clothing & Home business. Completion of the strategic network remains on track and is expected to be fully implemented by the end of 2017/18.

In IT, we continued to make progress on our GM4 Clothing & Home buying and merchandising systems with three of the four systems now operational within the business. As highlighted above, following a review of the Clothing & Home business, we will not

implement the final component, Assortment Planning. The proceeds from property disposals mainly relate to the deferred consideration from the sale of the White City warehouse which is being received over three years until 2016/17.

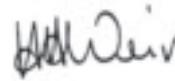
The Group purchased the remaining 50% share of the Lima (Bradford) S.à r.l. joint venture for cash consideration of £56.2m. The company owned the automated distribution centre in Bradford which was previously leased to the Group. As a result, the Bradford automated distribution centre is now completely owned and controlled by the Group.

CASH FLOW AND NET DEBT

	53 weeks ended 2 Apr 16 £m	52 weeks ended 28 Mar 15 £m
Underlying Profit Before Tax	689.6	661.2
Finance costs	116.4	116.8
Finance income	(21.1)	(15.5)
Depreciation and amortisation	576.8	550.1
Underlying EBITDA	1,361.7	1,312.6
Non cash pension and share charges	118.0	84.3
Non underlying items	(63.2)	(25.1)
Working capital	13.2	120.3
Pension funding	(118.4)	(143.0)
Capex and disposals	(519.5)	(664.4)
Acquisition of subsidiary	(56.2)	–
Interest and taxation	(206.0)	(177.1)
Share transactions	9.7	16.6
Free cash flow pre shareholder returns	539.3	524.2
Dividends paid	(301.7)	(280.7)
Share buyback	(150.7)	–
Free cash flow	86.9	243.5
Opening net debt	(2,223.2)	(2,463.6)
Exchange and other non-cash movements	(2.0)	(3.1)
Closing net debt	(2,138.3)	(2,223.2)

The business delivered strong free cash flow pre shareholder returns of £539.3m. After the completion of the share buyback programme and payment of dividends to shareholders, the overall net debt was down by £84.9m. The improved free cash flow reflects stronger business performance, with underlying EBITDA of £1,361.7m, an increase of £49.1m (3.7%) on last year. Working capital was broadly flat in the year. These movements are partially offset by pension funding of £118.4m and capital expenditure cash payments of £519.5m which include the payment of prior year capital accruals.

The Strategic Report, including pages 26 to 29, was approved by a duly authorised Committee of the Board of the Directors on 24 May 2016, and signed on its behalf by



Helen Weir Chief Finance Officer
24 May 2016

OUR PERFORMANCE

OUR PEOPLE

Our people bring our values to life. Their **talent, commitment to our customers and pride in M&S** are key to our long-term growth.

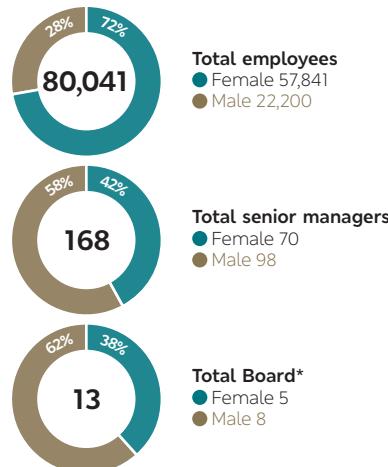
LIVING OUR VALUES

We have built on last year's Fit For The Future programme with a series of training initiatives designed to help employees live our values of Inspiration, Innovation, Integrity and In Touch. Last summer, our top 160 managers took part in a leadership development programme called Fit to Lead. The initiative looked at how we can be more collaborative, agile and entrepreneurial as an organisation. We also ran events for 750 line managers and 3,500 store managers in which they examined how our values can drive high performance. The feedback from all the events was extremely positive. We received 50,000 comments specific to living the values in our annual Your Say survey – they really resonate with our employees.

ENGAGED AND ENTREPRENEURIAL

Our Your Say survey showed that employee engagement levels remain high at 78%. We want to develop and celebrate the talent within M&S, and it's only right that good ideas are given a platform. Give Me Five, our initiative where employees pitch ideas to senior managers, has given employees a sense of ownership and a number of the pitched ideas have been implemented. The idea of Give Me Five itself came from some of our store and office colleagues keen to support our Fit for the Future drive to bring a more entrepreneurial spirit to M&S.

EMPLOYEE DIVERSITY AS AT 2 APRIL 2016



* Includes Marc Bolland and Martha Lane Fox who retired from the Board on 2 April 2016. Refer to p33 for current Board diversity information.

DIVERSITY AND WELLBEING

People are increasingly looking to work for organisations that give them the freedom to be themselves. We have developed an approach to Be Yourself in our induction process, encouraging employees to recognise people's differences while not being afraid to express their own. Our employees' wellbeing is also crucial to us and we continue to invest in programmes such as Dare to Care, an internal campaign focused around raising awareness of mental health.

TRANSFORMING OUR BUSINESS

As we continue to transform our business, we must ensure that the changes we make are implemented and communicated to employees effectively. The robust processes we have in place around succession planning, change management and our dedicated Employee Communications team help us mitigate such risks from a people perspective. Our Business Involvement Group (BIG), M&S's network of elected employee representatives, enables us to inform, involve and consult with colleagues across our business on our future plans. BIG gives colleagues the chance to voice their opinions and ideas, get answers and have their views represented.

PLAN A

A This year we extended our Make Your Mark youth employment scheme to our head office and Castle Donington distribution centre, increasing the options available to young people. Across the business, 1,400 people took their first steps into work thanks to the programme. Meanwhile, our Marks & Start scheme for people who face barriers getting into work helped an additional 1,400 people through work placements in our stores and distribution centres. We introduced Spark Something Good to encourage our people to make a difference in their local communities. The scheme allowed employees to coordinate their annual volunteer day in a collaborative way. By taking part in a series of community projects in individual cities on the same day, employees mobilised as teams for good causes. In London, we transformed 24 community projects over 24 hours. The scheme will be rolled out to 24 cities across the UK and Ireland over two years – we have already completed five cities; London, Manchester, Swansea, Edinburgh and Dublin.



M&S Inspiring Women

1. Our Inspiring Women Network events have seen a raft of high-profile visitors deliver motivating speeches to our employees. Guests this year have included Ruby Wax and Baroness Karren Brady.



2. All our people can influence change through BIG, which has 3,500 representatives from every store and business area who gather feedback and represent colleagues on the topics that are most important to them. BIG's agenda this year included the national living wage and Sparks.



3. Our awards this year include The Times Top 50 Employers for Women, Training Journal's Best Operational Programme for our store induction programme and, for the second year running, the Prince's Trust Young Achiever Award, which went to Stacey Fox from our Swansea store.

OUR PERFORMANCE

RISK MANAGEMENT

As with any business, we face risks and uncertainties on a daily basis. **Effective risk management** places us in a better position to be able to achieve our strategic objectives.

APPROACH TO RISK MANAGEMENT

The Board is accountable for carrying out a robust assessment of the principal risks facing the Company, including those threatening its business model, future performance, solvency and liquidity. On behalf of the Board, the Audit Committee reviews the effectiveness of the Group risk management processes.

Each business area is responsible for formally identifying and assessing their risks half-yearly, measuring them against a defined set of criteria, and considering likelihood of occurrence and potential impact to the Group. The Group Risk function facilitates a similar exercise with Executive Board members, combining information to provide a consolidated view. The top risks (based on likelihood and impact as illustrated below) form our Group Risk Profile, which is reported to the Executive Board for review and challenge, ahead of final review and approval by the Group Board. These principal risks are then subject to Board discussion during the course of the year, as appropriate.

To drive continuous improvement across the business, the Executive Board monitors the ongoing status of action plans against key risks quarterly.

KEY AREAS OF FOCUS

This year the Group Board has placed significant focus on defining our risk appetite. At the highest level, this is an expression of the types and amount of risk we are willing to take or accept to achieve our strategic and operational objectives. It is a key consideration in decision-making across the Group and helps us define the mitigating activities required to manage our risks.

Following on from last year's progress, we have taken our risk appetite work a step further and the Board has agreed a set of Group-level appetite statements. The purpose of these is to articulate the Board's desired risk-taking approach, and to support the business in its management of a number of principal risks. The current statements summarise normal risk parameters within which the Group already operates; as our business evolves we will continue to refine our risk appetite statements and approach. Further detail can be found on page 48.

During 2015/16, the directors also assessed the long-term viability of the Company in the context of its principal risks. The inclusion of a Viability Statement in Annual Reports from 2016 is a new requirement

under the UK Corporate Governance Code. The statement is designed to strengthen stewardship and to encourage directors to focus on the longer term. Further detail on this can be found on page 47.

PRINCIPAL RISKS AND UNCERTAINTIES

Overleaf are details of our principal risks and uncertainties and the key mitigating activities in place to address them. It is recognised that the Group is exposed to risks wider than those listed. We disclose those we believe are likely to have the greatest impact on our business at this moment in time and which have been the subject of debate at recent Board or Audit Committee meetings.

To achieve a holistic view of the risks facing our business, 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.

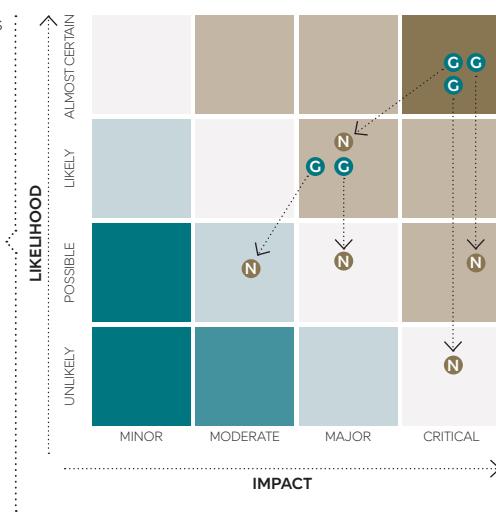
The diagram below maps our principal risks to our business model. This mapping helps us assess and manage risk, and provides a greater understanding of our principal risks in the context of our business operations, including their broader influence on viability, as discussed above.

RISK LIKELIHOOD AND IMPACT

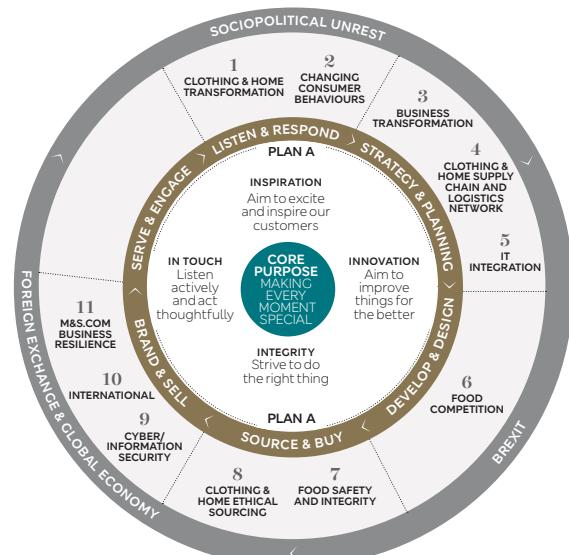
Identification Risks highlighted and documented in a centrally managed risk register

Assessment Risks assessed in terms of likelihood of occurrence and potential impact on the Group

Mitigation Required actions are agreed and assigned, with target deadlines and quarterly status updates



RISK AND OUR BUSINESS MODEL



OUR PERFORMANCE
RISK MANAGEMENT

EXTERNAL RISKS

In the table below we disclose 11 principal risks that may impact our business and are strategic or operational in nature. In addition to these a number of inter-dependent external risks are also the subject of discussion at Group Board and Audit Committee meetings, as appropriate.	Whilst these risks are beyond our direct control, we recognise the importance of operating a business model that has the potential to flex and adapt to a changing external environment. The first external risk is Sociopolitical Unrest , where ongoing geopolitical uncertainty, social unrest or the threat	of terrorism have the potential to impact consumer confidence and retail spending on a global scale. Deterioration in Foreign Exchange & Global Economy would not only affect consumer confidence in terms of the global economy, but the performance of our International business is also	significantly influenced by fluctuations in foreign exchange rates. As part of these broader risk factors we have specifically considered the implications of Brexit in terms of the significant economic uncertainty that exists in advance of the upcoming referendum on Britain's EU membership.
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PRINCIPAL RISKS AND UNCERTAINTIES

Key to change in risk level Higher Level Lower New risk

RISK	DESCRIPTION	CHANGE IN 2015/16	MITIGATING ACTIVITIES	
1 	CLOTHING & HOME TRANSFORMATION Our future performance is impacted by a lack of improvement in product relevance, execution or brand momentum	As we reassert our Clothing & Home quality and style credentials and work to improve availability, it is important that we understand and address our customers' needs in order to strengthen brand recognition in an increasingly competitive market.	Whilst significant focus has been placed on improving product style and quality, the benefit has yet to be seen in our sales performance. Transforming our Clothing & Home business to improve performance remains a key priority for the business.	<ul style="list-style-type: none"> → Workstreams in place addressing product, price and process. → Ongoing engagement with customers through data gathered by our Customer Insight Unit and focus groups, regularly shared with key areas of the business. → Ongoing dashboard monitoring of brand momentum. → Continued focus on product quality and style, including adherence to our Clothing Quality Charter.
2 	CHANGING CONSUMER BEHAVIOURS Our business performance will be impacted if we fail to keep pace with changing consumer behaviours	Consumer behaviours continue to evolve at pace; the proliferation of different purchasing channels has been unprecedented in recent years. We need to anticipate changes in the way our customers shop, including advances in digital technology. To leverage performance and keep pace with our competitors, we must proactively manage our property portfolio and operate a flexible business model.	Changing consumer behaviours is a newly added risk in recognition of the need to remain flexible in a highly competitive market. If we fail to meet the expectations of our customers in terms of digital advances or the accessibility of our store network this could have a significant impact on our future performance.	<ul style="list-style-type: none"> → M&S Venture Lab in place to keep us at the forefront of technological developments. → Customer Insight Unit and focus groups monitor changes in consumer behaviours on an ongoing basis. → Channel strategy regularly reviewed at Board level. → Financial modelling of projected channel performance to facilitate proactive management of the store portfolio.
3 	BUSINESS TRANSFORMATION As we strive to transform our business, we must ensure that the changes we make are implemented effectively	Our business is in a period of significant transformation, driven by a variety of internal and external factors. Effective management and implementation of associated people and process changes will be critical, whilst ensuring that our day-to-day operations are not adversely impacted.	The addition of Business transformation recognises the importance of ensuring that our business remains organisationally and operationally efficient in an increasingly competitive retail market, as we continue to address ongoing performance challenges and enter a new chapter in our history under the leadership of a new CEO.	<ul style="list-style-type: none"> → Business transformation regularly discussed by the Group Board. → Employee Communications team engaged to manage associated employee messaging. → Robust programme management practices in place. → Consultation with Business Involvement Group on changes related to our peo.
4 	CLOTHING & HOME SUPPLY CHAIN AND LOGISTICS NETWORK We fail to evolve our supply chain and logistics network to maximise availability for our customers and speed up delivery times	The growth of our business and achievement of strategic objectives is highly contingent on the successful execution of our Clothing & Home supply chain and logistics network strategy, the most recent stage of which was the launch of our redeveloped Bradford distribution centre.	2015/16 saw significant progress towards achieving our Clothing & Home supply chain and logistics strategy. Our Castle Donington distribution centre stabilised and we continued to progress with the redevelopment of our Bradford distribution centre. We also redefined Supply Chain & Logistics accountabilities.	<ul style="list-style-type: none"> → Ongoing simplification and stabilisation of Castle Donington distribution centre. → Phased approach to distribution centre transformation. → Supply Chain Leadership Group created, supported by changes to Supply Chain & Logistics accountabilities. → Robust programme governance in place, including interdependencies with other Group initiatives. → Ongoing review of progress against agreed operational and financial objectives.
5 	IT INTEGRATION Business processes are not adequately supported as a result of poorly integrated IT systems	Our business operates using a large number of complex and interdependent systems. The effective integration of these is reliant on us having access to and leveraging the right skillset, coupled with a culture of operational precision.	IT integration is a newly added risk. Following a period of investment in technology, there is scope to improve the integration between systems to leverage associated benefits, drive our business forward and maximise operational efficiency.	<ul style="list-style-type: none"> → Proactive simplification of IT infrastructure and application landscape through: <ul style="list-style-type: none"> – Clearly defined technology roadmaps for all business areas; and – Decommissioning of legacy systems. → Clear decision-making process for system changes, including established IT Change Approval Board.

FIND OUT MORE

⊕ See our Audit Committee Report on p42-46 + Read Risk in action on p47-48

RISK	DESCRIPTION	CHANGE IN 2015/16	MITIGATING ACTIVITIES	
6 =	FOOD COMPETITION Loss of market share, due to market price deflation or changes in the competitive landscape	The food market continues to evolve in response to changing customer behaviours and the increasing influence of the continental discounters. The ongoing polarisation between value and premium means it is important that we continue to provide a point of difference through newness, product quality and innovation, as well as convenience.	The food market has remained challenging in 2015/16. In response to this we continue to monitor our price positioning and to leverage our strengths.	<ul style="list-style-type: none"> → Significant focus on product newness and innovation to retain point of difference and drive customer loyalty. → Continued focus on product availability for our customers. → Regular review of price positioning. → Simply Food expansion to provide convenience for our customers. → Review of key lines to improve comparability with competitors.
7 =	FOOD SAFETY AND INTEGRITY A food safety or integrity related incident occurs or is not effectively managed	As a leading retailer of quality fresh food, it is of paramount importance that we effectively manage safety and integrity, especially as we grow our global food business and given the risk of fraudulent behaviour in the supply chain.	The external pressures facing the food industry continued to evolve in 2015/16. Fraudulent behaviour in the supply chain remains a significant risk, whilst regulatory requirements are becoming increasingly stringent. However, in response, our strong control environment has kept pace.	<ul style="list-style-type: none"> → Dedicated team responsible for ensuring that all products are safe for consumption through rigorous controls and processes. → Continuous focus on product quality. → Proactive horizon scanning, including focus on fraud and adulteration. → Robust store, supplier and depot auditing programme in place. → Crisis management plan in place.
8 Nr	CLOTHING & HOME ETHICAL SOURCING Our ethical standards continue to be of high importance as we make changes to our sourcing strategy	The promotional nature of the retail environment, coupled with inherent cost base pressures, make achievement of margin targets a key objective for the business. Against this background, it is critically important that we maintain our high ethical standards and the strong control environment under which we operate.	The Clothing & Home margin risk included in last year's report has been replaced by this Clothing & Home ethical sourcing risk. This recognises the importance of our strong ethical behaviours and the role they play in achieving our business objectives as we continue to improve our margin performance.	<ul style="list-style-type: none"> → Clearly defined sourcing policies and procedures. → Mature supplier ethical auditing programme in place, involving independent third party auditors. → Regional compliance teams providing ongoing in-country support. → Factory listening groups in place. → Member of the Ethical Trading Initiative.
9 ↑	CYBER/ INFORMATION SECURITY We experience a major breach in cyber, system or information security	The business is subject to external threats from hackers or viruses, or sensitive data is accessed without authorisation.	2015/16 saw a number of major organisations subjected to cyber-attacks. The external threat profile is ever changing, and the regulatory environment supporting data protection is also becoming more stringent.	<ul style="list-style-type: none"> → Security controls in place including policies, procedures and security technologies. → Ongoing monitoring of developments in cyber security threats, engaging with third party specialists where appropriate. → Control of sensitive data through limited and monitored access and the roll-out of systems possessing enhanced security. → Established team dedicated to managing security requirements for M&S.com.
10 =	INTERNATIONAL The performance of our International business and fulfilment of our strategy is affected by a lack of brand momentum or substandard infrastructure	To drive profitable growth, we need to ensure that our infrastructure and underlying processes and systems are sufficiently robust, and that our brand resonates across international markets.	International performance has remained challenging in 2015/16. We are working to improve all aspects of our International business including our business model, supply chain, systems and the skillset of our people.	<ul style="list-style-type: none"> → Geographic spread mitigates against localised geo-political or economic risks. → Local market knowledge provided by franchise and joint venture partnerships. → Performance monitoring by region, country and store, including focus on like-for-like performance and action planning for poor performing stores. → International representation in key Group initiatives.
11 ↓	M&S.COM BUSINESS RESILIENCE A major failure of our M&S.com platform or at our Castle Donington distribution centre impacts our ability to trade online	As our online traffic grows and our network infrastructure and operating model evolve, it is increasingly important to ensure that the M&S.com business and key dependencies are resilient.	Whilst this risk continues to be important especially as online traffic grows, the resilience and performance of our M&S.com platform and Castle Donington distribution centre have improved significantly in 2015/16.	<ul style="list-style-type: none"> → Dual site M&S.com command centre operates 24/7 to monitor website availability and performance. → Social media monitored to observe and respond to trends in customer experience. → Business continuity plans, incident reporting and management procedures are well established and tested, with regular monitoring including quarterly Business Continuity Committee meetings. → Proven resilience plans in place for the M&S.com platform.

Notes: The Group Risk Profile will evolve as mitigating activities reduce net risk over time, or as new risks emerge. Three new risks have been added to the Group Risk Profile since the prior year (IT integration, Changing consumer behaviours and Business transformation); the remaining risks have essentially remained the same, with the exception of one risk where the emphasis has changed from Clothing & Home margin to Clothing & Home ethical sourcing. Four risks have been removed from the Group Risk Profile since the prior year (Our people, staff retention, IT change and Programme and workstream management).

The risks listed do not comprise all those associated with Marks & Spencer and the numerical referencing does not denote an order of priority. Additional risks and uncertainties not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business. These less material risks are kept in view in case their likelihood or impact should show signs of increasing. Further information on the financial risks we face and how they are managed is provided on pages 113-116.

GOVERNANCE

CHAIRMAN'S GOVERNANCE OVERVIEW



Our approach to succession has **enhanced our ability to replace and develop responsibilities** quickly and seamlessly, and improved our ability to react to both planned and unplanned changes.

ROBERT SWANNELL CHAIRMAN

During the year the Board has placed much focus on **operational delivery, succession planning and risk management**. The following pages provide insight into these activities alongside the Board's discussions and governance processes.

An open and balanced review of our business performance has been covered earlier on pages 02 to 29. As highlighted, although we made headway against a number of the priorities we set ourselves at the start of the year, our performance in Clothing & Home and International remains unsatisfactory, despite the significant effort from the teams in these areas of the business. The last two years have seen a significant improvement in our clothing gross margin, delivered through improved design capabilities, smarter buying, a more flexible supply base and growth in our international reach. However, we recognise that we have more work to do to deliver sustained performance in Clothing & Home and International. These will both be key areas of focus for the year ahead.

A key area of Board discussion and challenge this year centered on improving the performance and risk management of our website and the Castle Donington distribution centre. The Board was pleased with the significant improvement in the operations of these over the critical Christmas period. Better process management and controls, and extensive testing by the team leading up to the intensive peak trading period, was a critical factor in this success. This focus on delivering an improved customer experience has underpinned a strong performance from M&S.com and delivered growth in market share.

Our balance sheet remains strong and we are delivering well against our free cashflow targets, even after returning £451.7m to shareholders, via dividend payments and the share buyback.

During the year the Board also discussed its strategic priorities, operational delivery and

the associated key business risks and their management. We have sought to provide insight into the scope of the Board's activities, discussions and resulting actions on pages 36 and 37 of this report.

Much thought has been given to our **risk appetite** resulting in the agreement of a formal set of Group level statements, as discussed on page 48. We have also spent time considering management of our **cyber and business continuity risks**, these will remain key items on the Board agenda.

SUCCESSION PLANNING AND CULTURE

This year has been particularly intensive for both the Board and the Nomination Committee relating to **succession planning and culture**, assessing the executive, non-executive and senior succession pipeline, and identifying what skills are needed to support our strategy and business for the long-term.

Board and senior management succession has been a regular feature of our Board and Committee discussion over the last five years, with development and continued assessment forming a key agenda item. So, when Marc Bolland raised his potential retirement with the Board, the Nomination Committee was well prepared to ensure a careful and systematic transition. This process along with further detail on the activities of the Nomination and Remuneration Committees are provided on pages 40 to 41 and 50 to 71 respectively.

In reaching its conclusion to appoint Steve Rowe as Chief Executive (CEO), the Committee followed a rigorous assessment, development and selection process, including external benchmarking.

The Board was unanimous in supporting Steve's appointment in the light of his considerable knowledge of the business and its people, his appetite to continue the process of change, his perceptive and effective problem solving, his values and his observed leadership. The Board is grateful to Marc for his planning, enabling the

Nominations Committee to work carefully and systematically on his succession.

Leadership, culture and good governance are essential considerations for our Board as it seeks to build a business that can deliver sustainable performance and an organisation fit for the longer term. Steve has outlined on page 06 to 08 the importance of customer focus, clarity, simplicity, and better ways of working to deliver on improved operational performance.

As the business looks at how it can work more effectively, the Board recognises the role it can play in demonstrating leadership and tone from the top.

Following our Board evaluation last year, we set out to articulate our Board culture with an internal framework to identify how we wanted to work as a Board and how we wished to operate and behave as a team. This has helped us to reflect not just on what we do but the way we do it. Furthermore, it aligns the Board with M&S's internal performance management to ensure that values and behaviours are integral to our corporate DNA.

THIS REPORT'S KEY FEATURES

Over the next few pages we look at our Board members, the role of the Board, its performance and its oversight. We provide an overview of the process undertaken to ensure CEO succession and provide insight into differing induction programmes.

Following feedback on our 2015 report, we again provide detail on the activities and discussions undertaken during the year by sharing some of the actions arising from those discussions and the progress against them. Given the timing of the change in leadership, certain discussions pertaining to future strategy and Board evaluation were undertaken subsequent to year-end. In the interest of transparency, to align with previous years and provide clarity to the reader, these have also been included in the table on pages 36 and 37.

GOVERNANCE – KEY FEATURES

Governance at M&S is an important element of our Board environment. It feeds into how we do business, how we serve our customers and our other stakeholders. It therefore needs to be authentic and meaningful.

In line with previous years, we have used the key themes of the UK Corporate Governance Code as the framework for articulating the Board's activities during the year:

- Leadership and Effectiveness are on pages 32 to 41
- Accountability on pages 27 to 29 within the Strategic Report and pages 42 to 48 in the Directors' Report
- Stakeholder engagement and relations with shareholders on page 49
- Remuneration on pages 50 to 71

Additionally, information on the Governance of our Pension Scheme is provided on page 72.

The required governance and regulatory assurances are provided throughout this Directors' Report in a way that reflects their relevance to the business. As in previous years, we have sought to provide insight as to how governance supports and protects the M&S business and our stakeholders in a practical way.

Where information would previously have been located within the Directors' Report, and has instead been incorporated into the Strategic Report, a list of page references is available within the 'Other Disclosures' section on page 73.

Every year we review and benchmark our governance framework against best practice. The framework sets out the roles, accountabilities and expectations for our directors and our structures. This format has been adopted widely across the business and can be viewed at marksandspencer.com/thecompany.

GOVERNANCE PROFILE

Independence Over half of our Board is made up of independent non-executive directors, in line with the UK Corporate Governance Code.

Senior Independent Director Our Senior Independent Director is Vindi Banga.

Accountability and election We have clear separation of duties between Chairman and CEO roles, and require all the directors to stand for re-election annually.

Evaluation An internally facilitated performance evaluation of the Board and its Committees was undertaken during the year. An external evaluation will be undertaken next year.

Attendance The directors have all attended an acceptable level of Board and Committee meetings.

Compliance The composition of all Board Committees complies with the application recommendations of the Code.

Experience Throughout 2015/16, the Audit Committee chairman met the specific requirements with regard to recent and relevant financial experience.

Tenure We changed our auditor in 2014/15, following a thorough tender process.

Non-audit policy We have a policy for the award of non-audit work performed by our auditor, which is disclosed on our website, and we have disclosed the limited non-audit work undertaken.

Auditor appointment We disclose our external auditor appointment policy.

Internal Audit Details on the Internal Audit function are provided within this report.

Performance-related pay A significant part of our performance-related pay is delivered through shares.

Reward Our reward framework is simple and transparent and is designed to support and drive our business strategy.

We also provide insight relating to director:

- **Independence** Maintaining the right balance of independence on the Board;
- **Effectiveness** The review this year was internally facilitated. We update on the output and the action plan for the year ahead on page 39; and
- **Ongoing development** Business training, engagement and mentoring.

UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code 2014 (the 'Code') is the standard against which we were required to measure ourselves in 2015/16

A copy of the Code is available from the Financial Reporting Council's website.

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

A summary of our governance profile, outlining our compliance with key areas of the Code, has been set out above.

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

notable non-underlying items impacting this year's performance. Information on the activities of the Committee can be found on pages 42 to 46 of this report.

In supporting talent and future leadership for the business, the Remuneration Committee has reviewed our remuneration framework, to ensure it remains relevant to the business, and continued to develop and test the setting and disclosure of objectives and targets. The Committee's activities, considerations and a summary of our Remuneration Policy, are on pages 50 to 71.

APPOINTMENTS AND BOARD CHANGES

We made a number of changes to the Board this year. On 1 April 2015, we welcomed Helen Weir as Chief Finance Officer. She has brought considerable financial challenge to our processes, data and key performance metrics and has built a strong team to support the business.

In April 2015 Richard Solomons joined the Board as Non-Executive Director. As the CEO of Intercontinental Hotels Group, he brings considerable knowledge of operating an international, multi-channel consumer business.

In July 2015, John Dixon, Executive Director of GM, resigned from the Board. Given his success in running Food for three years, Steve Rowe was appointed to the role.

In December 2015 we were delighted to appoint Andrew Fisher as a non-executive director; he brings considerable experience of digital services, consumer insight and international context to the M&S Board. His appointment followed a review of the Board experience and skills. The Nomination Committee set a clear search specification which focused on digital and consumer experience. This appointment was part of our planning for the retirement

of Martha Lane Fox, who stepped down as a non-executive director on 2 April, after nearly nine years on the Board.

Andrew, Helen and Richard all undertook comprehensive inductions into the business. Detail on Andrew's induction programme is provided on page 38, an overview of Helen's and Richard's was provided in last year's report.

These appointments bring new energy, challenge and oversight to the Board. Their additional skills and experience build on our existing talent and will stand us in good stead for the year ahead.

We continue to drive the agenda of diversity in its broadest sense across the business, and are proud to have built a workforce that is diverse in terms of gender, experience, ethnicity, age and levels of physical ability. Further insight is provided on page 41 and in our Plan A Report.

We hope this report demonstrates how our governance helps us test whether we are doing the right things in the right way, with the right safeguards, checks and balances, and whether the right considerations underpin the decisions we take. Furthermore, we report with honesty, integrity and transparency to ensure our stakeholders receive a fair and balanced view of the business in which they invest.

We approach the year ahead with confidence in our leadership and business and as outlined on pages 06 to 08, our focus will be on performance and delivery of our strategic priorities.



ROBERT SWANNELL CHAIRMAN

LEADERSHIP & EFFECTIVENESS

OUR BOARD

CHAIRMAN



Robert Swannell
Chairman

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

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

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

EXECUTIVE DIRECTORS



Steve Rowe
Chief Executive

Appointed: Executive Director, General Merchandise in July 2015, Chief Executive from 2 April 2016

Skills, competence and experience: Steve joined M&S in 1989 and progressed through a variety of roles within store management before moving to Head Office in 1993. He has worked in senior roles across various areas of the business, including Director of Home, Director of Retail, and Director of Retail and E-commerce. He was appointed to the Board as Executive Director, Food in 2012, leading the Food division as it continued its record of outstanding innovation and strong growth. Steve moved to the role of Executive Director, General Merchandise in July 2015, with a mandate to improve overall performance and build on the Clothing & Home division's design and sourcing capabilities, prior to his appointment as CEO on 2 April 2016.



Helen Weir
Chief Finance Officer

Appointed: April 2015

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

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



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

Appointed: July 2013

Skills, competence and experience: Patrick brings over 25 years of extensive experience in the consumer goods industry. His valuable strategic insight is supported by his experience in developing and marketing brands globally and broad knowledge of enhancing business performance and customer experience in a multi-channel environment.

Patrick played a key role in creating the new marketing strategy for Womenswear, and continues to lead the transformation of M&S's in-store environment and the publishing strategy for M&S.com. Patrick assumed overall responsibility for M&S.com and Plan A in May 2016.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS



Vindi Banga
Senior Independent Director

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

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

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



Miranda Curtis
Non-Executive Director

Appointed: February 2012

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

Other roles: Chairman of Waterstones, Non-Executive Director of Liberty Global plc, board member of both the Institute for Government and the Royal Shakespeare Company, Vice-Chairman of Garsington Opera and chairs African girls' education charity, Camfed.



Andy Halford
Non-Executive Director

Appointed: January 2013

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

Other roles: Chief Financial Officer of Standard Chartered plc.



Alison Brittain
Non-Executive Director

Appointed: January 2014

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

Other roles: Chief Executive of Whitbread plc and member of the Prime Minister's Business Advisory Group.

FIND OUT MORE

+ See p34 for Governance and Board structures + See p36-37 for Board activities in 2015/16

+ See p34 for Board roles and responsibilities

RETIREMENTS IN 2015/16

**Laura Wade-Gery**
Executive Director, Multi-channel**Appointed:** July 2011**Skills, competence and experience:**
Laura brings considerable retail, e-commerce and customer experience, gained from over 15 years in senior roles in the retail sector. Laura has been instrumental in the improvement and modernisation of our e-commerce and multichannel capabilities, which she continues to lead. In July 2014, Laura's role was expanded to include responsibility for UK stores to provide greater oversight and a fully integrated approach to M&S's multi-channel strategy. Laura is currently on maternity leave and is due to return in September 2016.**Other roles:** Non-Executive Director of British Land, Trustee of Royal Opera House Covent Garden Limited, Trustee of Aldeburgh Music.**Marc Bolland**
Chief Executive**Retired:** 2 April 2016. Marc stepped down on 2 April 2016 after six years as Chief Executive. He remains available to the Board to assist in the transition until 30 June 2016.**Martha Lane Fox**
Non-Executive Director**Retired:** 2 April 2016. In line with best practice, Martha chose not to seek re-election at the AGM following completion of her third three year term and retired from the Board on 2 April 2016.**John Dixon**
Executive Director, GM**Resigned:** 16 July 2015. After 29 years with M&S, John stepped down in July 2015 to pursue new career opportunities outside of the Company.

BOARD DIVERSITY

The tables and graphics below provide a visual outline of our Board's diversity in terms of gender, range of experience and length of tenure. More information on our Board Diversity Policy can be found on page 41.

GENDER DIVERSITY

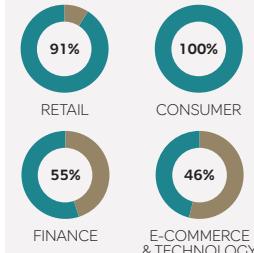
2 April 2016	24 May 2016
(As at year end)	(As at date of Annual Report)

GROUP BOARD	GROUP BOARD
Male 62%	Male 64%
Female 38%	Female 36%

EXECUTIVE	EXECUTIVE
Male 60%	Male 50%
Female 40%	Female 50%

NON-EXECUTIVE	NON-EXECUTIVE
Male 62%	Male 71%
Female 38%	Female 29%

SECTOR EXPERIENCE



GROUP SECRETARY

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

INTERNATIONAL EXPERIENCE



NON-EXECUTIVE DIRECTOR TENURE



KEY TO COMMITTEES

N	Nomination	R	Remuneration
A	Audit	CC	Committee Chair

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

LEADERSHIP & EFFECTIVENESS

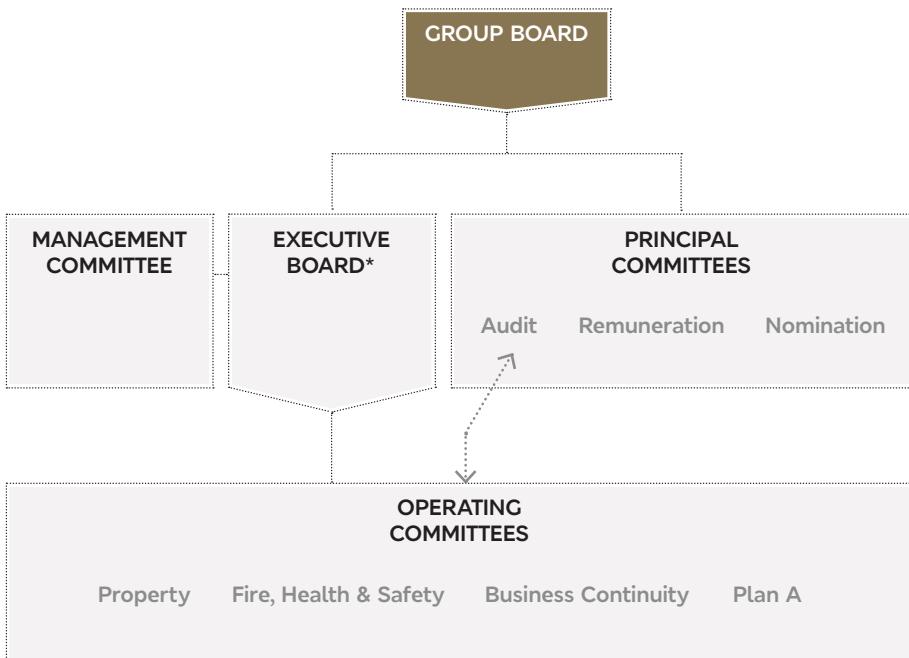
OUR BOARD CONTINUED

BOARD OVERVIEW

BOARD COLLABORATION

The Board and Committee structure throughout 2015/16, is provided on the right. As highlighted on page 09 of the Strategic Report, going forward the Management Committee will be disbanded and the Executive Board will be renamed the Operating Committee with renewed membership. Operating Committee membership is provided on page 09. Updated Terms of Reference for this Committee will be added to our corporate website once agreed by the Board.

The work of the Board complements, enhances and supports the work of the Executive Board. We believe that effective governance is realised through leadership and team work. Collaboration across all levels within the Board structure drives a culture of continuous improvement in standards and performance across our business. Working together, all parts of the Board structure conduct robust interrogation of plans and actions, ensuring high-quality decision-making in all areas of strategy, performance, responsibility and accountability.



* Going forward, this will become the Operating Committee

ROLE OF THE BOARD AND ITS COMMITTEES

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

The Board discharges some of its responsibilities directly and discharges others through its Board Committees and through management. The Terms of Reference of the Board and its Committees are included in our Governance Framework.

The Board agrees, and has collective responsibility for, the strategy of the Company. For M&S, our strategy is understood to mean the development of specific actions aimed at satisfying the needs of our target customer groups across the product categories and in the territories in which we choose to operate. The articulation of our strategy will include agreement on how our physical and intellectual property and the skills of our people should be used, developed and

enhanced to create competitive advantage for the Company.

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

The Board is responsible for ensuring that appropriate values, ethics and behaviours for the conduct of the Company are agreed and that appropriate procedures and training are in place to ensure that these are observed throughout the Company. The Board has discussed and agreed the key values of Inspiration, Innovation, Integrity and In Touch and these underpin the required values, ethics and behaviours.

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

The Board is responsible for:

→ Ensuring leadership through effective oversight and review. Supported by its principal committees – Audit,

Remuneration, and Nomination – the Board sets the strategic direction and aims to deliver sustainable shareholder value over the longer term.

→ Overseeing the implementation of appropriate risk assessment systems and processes to identify, manage and mitigate the principal risks of the Company's business. Much of this work is delegated to the Audit Committee.

→ Effective succession planning at Board level and for assessing the processes in place to ensure that there is appropriate succession planning amongst senior management. Much of this work is delegated to the Nomination Committee.

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

FIND OUT MORE

+ See Board activities overview on p36-37

+ See our Board biographies on p32-33 + See our Remuneration Report on p50-71

BOARD COMPOSITION, ROLES AND ATTENDANCE AS AT YEAR END

EXECUTIVE DIRECTORS	ATTENDED	MAX POSSIBLE	RESPONSIBILITY IN 2015/16	LINKED TO REMUNERATION	CHAIRMAN	ATTENDED	MAX POSSIBLE	RESPONSIBILITY
Chief Executive Marc Bolland (Retired 2 April 2016)	8	8	Strategy & Group performance	✓	Robert Swannell	8	8	Board governance and performance, and shareholder engagement.
Chief Executive Designate Steve Rowe (CEO from 2 April 2016)	8	8	Food performance from April to July 2015 General Merchandise performance thereafter	✓				
Chief Finance Officer Helen Weir	8	8	Group Financial Performance and Ecommerce distribution	✓				
Executive Director Patrick Bousquet-Chavanne ¹	7	8	Marketing & International performance	✓				
Executive Director John Dixon (Resigned 16 July 2015)	3	3	Clothing & Home performance	✓				
Executive Director Laura Wade-Gery (Maternity Leave from 1 September 2015)	4	4	UK Retail & Multi-channel performance	✓				
NON-EXECUTIVE DIRECTORS	ATTENDED	MAX POSSIBLE	RESPONSIBILITY					
Vindi Banga ²	7	8	Independent non-executive directors assess, challenge and monitor the executive directors' delivery of the strategy within the Board's risk and governance structure.					
Alison Brittain	8	8						
Miranda Curtis	8	8						
Andrew Fisher (appointed 1 December 2015)	3	3						
Martha Lane Fox ³ (Retired 2 April 2016)	7	8	In addition, they review the integrity of financial information, devise appropriate succession plans, and monitor Board Diversity.					
Andy Halford	8	8						
Richard Solomons	8	8						

BOARD MEETINGS

The Board held eight scheduled meetings during the year, and individual attendance is set out above. Sufficient time is provided at the start and end of each meeting for the

Chairman to meet privately with the Senior Independent Director and the non-executive directors to discuss any matters arising. At the start of each meeting, one

director provides feedback on the previous meeting, highlighting matters that received a good level of debate and areas where further improvements could be made.

+ See Board Activities on p36-37

This table provides details with regard to scheduled meetings held in the 2015/16 financial year.

1. Patrick Bousquet-Chavanne was unable to attend the meeting on 18 May due to overseas personal commitments.
2. Vindi Banga was unable to attend the meeting on 17 June due to business commitments with CD&R.
3. Martha Lane Fox was unable to attend the meeting on 18 May due to personal commitments.

MONITORING AND OVERSIGHT

RISK MONITORING AND OVERSIGHT

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

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

STRATEGIC PROCESS

Progress against the strategy is closely monitored by the Executive Board and discussed at each Group Board meeting. Given the change in leadership, announced at the start of January, the Board's annual two-day strategy meeting was postponed. Much of the proposed agenda for this meeting has subsequently been discussed.

The Board has since debated the priorities and the longer-term challenges, some of which we have communicated earlier in this report. We have identified opportunities for improvement and continue to formulate an agreed action plan. The non-executive directors continue to share their expertise and provide independent oversight to these discussions.

INDEPENDENCE OF DIRECTORS

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

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

All non-executive directors have served fewer than six years on the Board.

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

+ See details and experience of each director on p32-33

LEADERSHIP & EFFECTIVENESS
OUR BOARD CONTINUED

BOARD ACTIVITIES

TOPIC	ACTIVITIES/DISCUSSION	ACTIONS ARISING	PROGRESS
Strategy	Discussed strategic priorities, including the combined Food and Clothing & Home proposition.	<ul style="list-style-type: none"> → Conduct a thorough review of UK store estate, including format and profitability. → Improve capability in buying, merchandising and design in respect of Clothing & Home. → Review organisational capability across all departments. → Improve processes around succession planning to ensure candidates build required skillset. → Provide more challenge to accepted practices. → Become more agile and less risk averse in piloting new initiatives. → Drive simplicity in our culture, organisational structure and processes. 	<ul style="list-style-type: none"> → Accelerated rollout of new Simply Food stores. → Senior leadership appointments made in critical areas with proven talent. → Centralised design authority through introduction of Design Director structure. → New design and product forums introduced to encourage colleagues to share knowledge and upskill. → Identified actions to bring brand proposition to life in store.
	Discussed the Group's capital structure and financial strategy, including capital investments, shareholder returns and the dividend policy.	<ul style="list-style-type: none"> → Continued investment to promote sustainable business growth over the long-term. → Utilise improved cash-flow position to implement ongoing, sustainable programme of returns of capital to investors. 	<ul style="list-style-type: none"> → Strong cash generation due to better buying, lower capital expenditure and robust cost management. → £150m returned to investors through a share buyback programme. → Total dividend for the 2015/16 up to 18.7p, a 3.9% increase on last year.
	Reviewed the development of the strategic logistics network.	<ul style="list-style-type: none"> → Consider scenarios for future business requirements. → Evaluate proposals for improved network design. → Investigate opportunities for further operational improvements. 	<ul style="list-style-type: none"> → Substantial progress made in development of logistics network design in support of business requirements. → Detailed transition plan to move to a single tier network. → Lessons learned from early stages of project leading to improved processes for current and future development phases.
	Reviewed international strategy, including key priorities.	<ul style="list-style-type: none"> → Review of international franchise operations in the context of a changing macro-environment. → Identify and prioritise initiatives to deliver the international strategy. → Deliver the relevant product ranges for local customers. → Build an international supply chain that is fit for the future. → Adapt and implement e-commerce business model to drive sustainable and profitable growth. 	<ul style="list-style-type: none"> → Key growth drivers in franchise markets identified. → Increased focus on proven markets and concepts. → Write down of assets and exit costs linked to withdrawal from Balkan region. → Proposed store openings kept under review to ensure appropriate balance of food and full line stores in target markets.
	Discussed internal governance processes underpinning key programmes and initiatives.	<ul style="list-style-type: none"> → Review the business's programme management and post investment review processes to improve delivery. 	<ul style="list-style-type: none"> → Progress made in pinpointing particular areas for improvement and implementing a 'One Best Way' approach to programme management.
Governance & risk	Discussed new Corporate Governance developments and disclosure requirements.	<ul style="list-style-type: none"> → Clearly define the Company's risk appetite and determine the nature and extent of principal risks. → Discuss and determine the Company's longer-term viability disclosures, accounting for current position and principal risks. 	<ul style="list-style-type: none"> → Review of risk appetite statements in the context of the principal risks and objectives. → Agreed scope, appropriate lookout period and timeline in respect of the newly required long-term viability statement, in line with the UK Corporate Governance Code.
	Reviewed progress against the 2015/16 Board Action Plan.	<ul style="list-style-type: none"> → Conduct an internally facilitated Board Evaluation → Obtain and evaluate director feedback on the processes, effectiveness and working of the Board and Committees. 	<ul style="list-style-type: none"> → Introduced internal Board framework → Agreed 2016/17 action plan with clear process for monitoring during the year.
	Half yearly review of Group Risk Profile, covering core internal and external risks, risks driven by business change and areas of emerging risk.	<ul style="list-style-type: none"> → Assess the effectiveness of the Company's risk management systems. → Review completeness and ordering of the Group Risk Profile, including key risk movements, and considered appropriate mitigating factors. → Ongoing robust debate around risk appetite. 	<ul style="list-style-type: none"> → Agreed a robust set of Group level risks and mitigating activities, which are regularly monitored. → Further developed the Board's approach to risk appetite and agreed a set of Group-level statements. → Considered movements in key risks resulting from changes to likelihood or business impact, recategorising as appropriate.
	Conducted a review of the Company's cyber security position.	<ul style="list-style-type: none"> → Assess the strength of M&S's cyber security policies, capability and areas of risk. → Discuss the structure of our approach to cyber security in light of recent changes to data protection legislation. → Provide an objective assessment of business capabilities in light of the relevant risks. 	<ul style="list-style-type: none"> → Robust plans in place to ensure the business's cyber security systems remain sufficiently robust going forward. → Existing capabilities comprehensively reviewed and consideration given to future developments in the area of cyber security. → Areas of risk identified and future priorities agreed.

⊕ See our **Board Effectiveness Review** on p39

BOARD ACTIVITIES CONTINUED

TOPIC	ACTIVITIES/DISCUSSION	ACTIONS ARISING	PROGRESS
Leadership & Employees	Discussed succession, talent development and diversity across management.	→ Review Board composition and diversity policy. → Continue to support executive director and senior management development. → Deliver robust succession planning and nurture internal talent pipeline to provide our people with the required skills and capabilities for today and for the future.	→ 39% of our Board members were female as at close of the 2015/16 financial year, reducing to 36% following the retirements of Marc Bolland and Martha Lane Fox on 2 April 2016. → Ongoing initiatives include Leadership Development Service, mentoring and coaching. → Significantly refreshed approach to development of internal talent through introduction of initiatives such as the 'Fit To Lead The Future' programme.
	Reviewed the composition and succession planning procedures of the Board and its Committees.	→ Ongoing commitment to maintaining a balance of appropriate skills and experience among the Board and its Committees.	→ Approved the appointments of a new Chief Executive and an additional Non-Executive Director.
	Discussed employee engagement, reward and pensions.	→ Conduct a thorough review of how we reward our people with emphasis on fairness, consistency and sustainability. → Evaluate results of annual 'Your Say' and quarterly 'Pulse' surveys to identify areas for improvement.	→ Proposed new approaches to pay and pensions and initiated a period of consultation with employees through our National Business Involvement Group. → Increased engagement with our people across all areas of the business.
Customers	Discussed improvement of customer engagement through introduction of innovative new reward programme.	→ Introduce a new customer engagement strategy and encourage a more centralised relationship with the customer. → Drive further promotion of Sparks to help customers understand the proposition and the benefits of membership.	→ Successful launch of Sparks with over 4m registered members since October 2015. → Progress made in addressing early challenges following launch.
	Reviewed Clothing & Home strategy.	→ Drive market share growth through improved product availability, pricing consistency and range focus. → Support multichannel growth. → Build foundational elements required to support sustainable growth in Clothing & Home.	→ Notable successes in refreshed style credentials and improvements in product quality.
	Discussed development of brand and customer proposition.	→ Evaluate new concepts and in-store enhancements to improve customer experience. → Consider future evolution of the M&S brand and product proposition. → Continue to refine our customer understanding.	→ Directional focus on customer with emphasis on simplicity and financial responsibility. → Ongoing rollout of refreshed store fascias and enhancements to in-store environments.
	Reviewed the performance and progress of M&S.com.	→ Review of developments during the year and further promotion of digital mind-set as key facet of development strategy. → Continue to invest in building digital capability to provide a better experience for customers.	→ Progress made in embedding digital mind-set at heart of strategy. → Strong growth and improved returns achieved in 2015 following challenging transitional year in 2014. → Continued progress in improving customer satisfaction.
Values	Discussed security risks affecting the business.	→ Review of incident reporting and management procedures to ensure ongoing security awareness.	→ Delivered crisis management exercises across UK Crisis Management Teams and 'duty manage with confidence' courses across the International business.
	Discussed continued evolution of Plan A.	→ 104 Plan A commitments to be achieved by 2020. → Review progress made in 2015/16 and set priorities for 2016/17.	→ 57 achieved, 5 not achieved. → 40 on plan, 1 behind plan. → 1 commitment cancelled. → Identified strategic priorities for 2016/17.
Shareholder engagement	Reviewed organisational culture and improvements to our ways of working.	→ Review ways of working across stores and offices. → Consider implementation and business impact of the National Living Wage. → Evaluate M&S's pay positioning in context of wider retail industry.	→ Introduced 'Smarter Working' workstream to evaluate and improve use of office space. → Proposed a new approach to future pay positioning.
	Encouraged strong engagement with investors and stakeholders.	→ Actively support engagement opportunities.	→ 30 largest shareholders invited to our fifth annual Governance Event, hosted by the Chairman.
	Reviewed feedback from shareholders in advance of AGM.	→ Specific issues raised by shareholders to be addressed in Chairman's statement.	→ Communicate progress made in key topics raised by shareholders.
	Reviewed the success of the first year's operation of the Payment Plus Scheme.	→ Evaluate overall performance of the scheme during the year and consider future viability. → Consider feasibility of extending the scheme to nominees.	→ Successful delivery of the scheme over two dividend payments during the year. → Ongoing assessment of the scheme's performance to date.

LEADERSHIP & EFFECTIVENESS

OUR BOARD CONTINUED

SUCCESSION

In January 2016 we announced that after six years in the role, Marc Bolland would retire as CEO. We advised that Marc would be succeeded by Steve Rowe on 2 April. At the time of the announcement Steve was Executive Director of General Merchandise. To ensure a smooth transition Marc agreed to remain available to Steve and the Board until 30 June 2016.

When Marc joined M&S he indicated informally that he would serve a tenure of five to six years. Having guidance from the date of appointment assisted with the planned and orderly succession of the CEO role. In the summer of 2015, Marc indicated

that he was considering his retirement and that the Board, with the assistance of the Nomination Committee, may want to step up their succession search.

In reaching its conclusion to appoint Steve as CEO, the Nomination Committee set a rigorous assessment, development and selection process, including external benchmarking.

Succession is not just about Board appointments. Succession and succession planning remain key agenda items to ensure a continuous supply of suitable individuals ready to take over when directors, senior staff or other key

employees leave the business in a range of situations. In addition, our focus on succession demonstrates our commitment to recruit, retain, develop and promote high performing staff.

We believe our approach to succession is strategic, thoughtful and practical. We appoint on merit against objective criteria and with due regard to the benefits of diversity in its widest definition. We ensure that new appointments come with the required qualifications, experience and skills to meet the challenges ahead.

DIRECTOR INDUCTION

STEVE ROWE INDUCTION

Steve already had a unique considerable understanding of M&S. His journey to the Board started when he joined the business over 25 years ago. Steve undertook and progressed through a number of store-based positions, which provided him with a clear understanding of our customers, their expectations, and the demands on our store-based employees.

Moving to Head Office in 1993, Steve worked in a variety of roles across all areas of the business including menswear, merchandising, home, online and the store estate. In 2012 he was appointed to the Board as Executive Director of Food and

received a thorough induction led by the Chairman. Steve led Food through three years of continued growth. In 2015 Steve moved from Food to Clothing & Home. These roles have provided an in-depth understanding of the business and the structures within our offices.

Over the past two years, Steve has received mentoring from senior business leaders and has undertaken executive development programmes in the UK and overseas. This was to broaden his understanding of core business functions and global strategic management.

Over his time with M&S Steve has experienced many changes to the business and operated under the differing leadership styles of six Chief Executives.

Following the announcement of his appointment as CEO, Steve met with the Chairman, each of the non-executive and executive directors, the Group Secretary, members of senior management and a wide range of individuals from across the business. Steve met with the Company's lead audit partner and its remuneration advisors. Steve has met with some of our private and institutional shareholders.

ANDREW FISHER INDUCTION

During the year, the induction process has been reviewed based on feedback from earlier tailored programmes. The comments from the review were used to update the induction process for Andrew Fisher, who joined the business in December 2015.

Andrew's induction was comprehensive and tailored to his understanding of the business. It was led by the Chairman and covered:

Company structure and strategy, including: our history; strategy (including details of all key investment decisions), key people and

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

Industry and competitive environment, including: customer trends; consumer and regulatory environment including

governance and all relevant consumer and industry bodies, Corporate Social Responsibility, environment and sustainability.

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

BOARD EFFECTIVENESS REVIEW

The assessment of the M&S Board was conducted according to the guidance set out in the UK Corporate Governance Code.

Given the change in leadership, the Board were keen for its evaluation to highlight learnings from the past and build on these for the future. The evaluation was internally facilitated by the Group Secretary and undertaken from February to April 2016.

The evaluation was based around a number of key areas:

- Board composition, role, skills, diversity, balance and experience;
- Board leadership and culture;
- Agenda, information, papers and resource;
- Monitoring company performance;

- Strategic and risk debate;
- Governance, regulatory compliance and support;
- Committee performance.

The Board was asked to reflect on its action plan set out at the start of the 2015/16 financial year and the summary of the Board's assessment of progress against this plan as at December 2015.

Stage 1: A comprehensive questionnaire (60 questions with rankings and open text boxes) was sent to each Board member, along with a copy of the previous year's evaluation and action plan.

Stage 2: Alongside the questionnaire, Board members participated in one-on-one discussions with the Group Secretary.

Stage 3: A report was compiled by the Group Secretary based on the information and views provided. All recommendations were based on best practice as described in the UK Corporate Governance Code and other current corporate governance guidelines.

Stage 4: Draft conclusions were discussed with the Chairman and subsequently the whole Board at its meeting in May 2016. The conclusions of that discussion were

recorded in the minutes of the meeting. Robert Swannell also received a separate report with feedback on individual directors. Following the Board meeting, the Group Secretary gave feedback on the Chairman to the Senior Independent Director, and to the Committee Chairmen on the performance of each committee. The Senior Independent Director also met with the non-executive directors to review the Chairman's performance. This review is then shared with the Chairman.



The Board evaluation for the 2016/17 financial year will be facilitated by Ffion Hague.

BOARD REVIEW INSIGHTS 2015/16

- Overall the Board is considered strong, bringing a good balance and mix of expertise and experience and offering real diversity of view and perspective.
- Progress was felt to have been made against the 2015/16 Action Plan, particularly in relation to the quality of management information.

- The subsequent discussions on the risk process and risk appetite, post investment reviews and action follow up were positively highlighted.
- However, despite the progress on last year's evaluation, views on Board effectiveness continue to be tempered by the overall business performance.

- As a result, items from last year's Action Plan will continue to form the base for the 2016/17 Plan.
- Board Committees were all considered to work well and were noted for their level of debate, grasp of key issues and overall subject and regulatory knowledge. The Action Plans for the Nomination, Audit and Remuneration Committees are set out on pages 40 to 41, 42 to 46 and 50 to 71 respectively.

BOARD ACTION PLAN

THE BOARD ACTION PLAN 2016/17 WILL COVER:

- oversight of business change and performance;
- key performance indicators and link to strategic context;
- key business and strategic risks and associated risk appetite parameters;
- greater knowledge of and interaction with senior management and wider employee community.

LEADERSHIP & EFFECTIVENESS

NOMINATION COMMITTEE REPORT

The Nomination Committee and the Board have ensured that **development, mentoring and continued assessment** remain key agenda items.

ROBERT SWANNELL CHAIRMAN OF THE NOMINATION COMMITTEE



INTRODUCTION

Earlier in this report I provided detail on the Board changes during the year. Succession and director development have been key areas of focus for the Committee this year, culminating with the appointment of Steve Rowe as the new CEO, and the appointment of a non-executive director, Andrew Fisher.

For the CEO and executive director appointment, selection is based on the experience and skills required for specific roles, for which a specification is developed and agreed. For the succession of non-executives, the Nomination Committee considers the combination of skills and experience required to fulfill the Board's purpose. There is a well-defined

specification for each appointment with a clear understanding of the attributes and values required to help the effective functioning of the whole Board. The Board explicitly acknowledges the need for diversity in its composition and in particular, that there should be a strong representation of women.

Emergency succession planning is also an important area of discussion for the Committee, ensuring the business develops a framework with clearly identified individuals capable of covering key management roles on an interim basis. All these individuals then receive the necessary coaching to ensure they have the required skills to provide any critical support when needed.

The effectiveness of our emergency planning was tested following the resignation of John Dixon, Executive Director of CM. Steve Rowe moved from Food, which he had run successfully for three years, to take over from John. Andy Adcock, who had worked closely with Steve, was appointed to lead Food. In addition, we reallocated responsibilities to cover Laura Wade-Gery's maternity leave.

Development for directors and high performing individuals below Board level has been an essential area of focus. Coaching and mentoring is provided to develop and enhance specific skill sets, and the Committee believes the benefits of this approach are critical for developing our own talent for the future.

EFFECTIVENESS OF THE NOMINATION COMMITTEE

Committee review

The Committee's performance was internally evaluated this year by the Group Secretary. The Committee has had a busy year and its remit and effectiveness were tested, both in terms of succession and emergency planning. The Committee considered its composition during the year

following Steve's appointment as CEO. In order to ensure independence, the Committee decided that its membership should only include independent non-executive directors. Therefore, Steve will not be joining the Nomination Committee as a member; however, he will attend Committee meetings when invited.

Nomination Committee activity

The Committee held a significant number of unscheduled meetings to support CEO succession. It continued to support succession and development of the executive directors, implemented development initiatives for senior executives, international business school training, executive coaching and non-executive director mentoring. Committee members also participated in several employee-focused and diversity-based initiatives, giving increased access to the organisation, direct employee feedback and greater visibility of high potential talent.

MEMBER ATTENDANCE	MEMBER SINCE	NUMBER OF MEETINGS ATTENDED	MAXIMUM POSSIBLE MEETINGS	% OF MEETINGS ATTENDED
Vindi Banga	3 Sept 2011	5	5	100%
Marc Bolland	1 May 2010	5	5	100%
Alison Brittain	1 Jan 2014	5	5	100%
Miranda Curtis	3 Feb 2012	5	5	100%
Andrew Fisher	1 Dec 2015	2	2	100%
Martha Lane Fox	1 June 2007	5	5	100%
Andy Halford	1 Jan 2013	5	5	100%
Richard Solomons	13 Apr 2015	5	5	100%
Robert Swannell	4 Oct 2010	5	5	100%

ACTION PLAN 2016/17

- Continue to review succession plans for the Board and key roles across the business;
- Continue to identify future talent pipeline;
- Review development initiatives for directors; and
- Continue to identify opportunities for broader business engagement.

BOARD DIVERSITY POLICY

Since the launch of the Board Diversity Policy in 2012, the Board has made progress in broadening the diversity of the Board and senior management. In 2015, the Board reviewed the policy to ensure that it continues to drive the benefits of a diverse Board and workforce across the business. The Board agreed that the ambitions and objectives set out in the policy remain relevant targets against which to measure our progress.

For further information on employee diversity, including gender, ethnicity and age, see p23 of our Plan A Report marksandspencer.com/plana2016.

BOARD DIVERSITY: PROGRESS UPDATE

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

As highlighted earlier in the report, changes to the Board were made during the year to 2 April, experienced two retirements and one resignation. Despite the reduced overall size of the Board, the percentage of women on the Board remains strong at 36% at time of publication. The charts on page 33 provide a clearer picture of our Board diversity.

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

The Board is also committed to strengthening the pipeline of senior female executives within the business and has taken steps to ensure that there are no barriers to women succeeding at the highest levels within M&S.

In 2016, M&S was again listed in The Times Top 50 Employers for Women for the sixth year running.

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

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

Key initiatives include:

- A comprehensive talent review presented to the Board annually, mapping successional candidates and opportunities across all senior roles within the business.
- A thorough refresh of our approach to talent development through the introduction of new initiatives, including

the 'Fit to Lead the Future' programme, Fit For the Future Leadership journey, Line Manager focus and Emerging Leaders approach.

- The Leadership Development Service has been in place for two years and continues to identify and partner key senior talent across the business, broadening their skillsets and experience to prepare them for future opportunities. This has been supported through greater boardroom exposure, non-executive and Trustee roles outside of M&S, and participation in mentoring schemes.
- Access to International Business School Training.
- Senior management mentoring and coaching schemes, including individual leadership assessments, and non-executive director sponsored lunches and breakfasts.

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

During the year, the Nomination Committee discussed the successional needs of the Board in respect of its non-executive directors, and continues to work closely with executive search agencies in compiling long and short lists of candidates. During the search for the most recent appointments, the Board identified and interviewed a range of candidates from various backgrounds and industries, all of whom were measured against criteria agreed at the start of the process. The Chairman also meets informally with a range of people introduced by third parties or through direct approaches. Although we do not currently openly advertise our non-executive director positions, we appreciate the benefit of this approach and will keep this under review.

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

The Board remains committed to ensuring that high-performing women from within the business and from a variety of backgrounds, who have the requisite skills, are given greater exposure to the nomination committees of FTSE100 companies. Once again, the Board met its commitment, and all non-executive director long lists in 2015/16 included 50% female candidates.

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

The Board continues to support the nine principles of the Executive Search Firms Voluntary Code of Conduct on gender diversity, demonstrated by remaining committed to only engaging executive search firms who are signatories to this code. During the year, we worked closely with Egon Zehnder and JCA, and maintained our focus on the targets and ambitions around female

representation on the Board. The Board confirms that neither Egon Zehnder or JCA has any other connection with the Company.

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

The Board has made strong progress against the key policy objectives during the year, as reported above.

In addition, the business has continued to promote diversity with the introduction or continuation of key initiatives:

- The annual Board evaluation process includes an assessment of the Board's diversity including gender, helping to objectively consider its composition and effectiveness.
- The M&S Inspiring Women's Network, launched in 2014, continues to support the progress of women in our business, giving access to a range of role models, providing informal mentoring and networking opportunities, and creating a forum for discussion to explore and address the career challenges women face.
- Continued involvement in the government-backed 30% Club, an organisation committed to increasing female representation on UK Boards.
- The MBA Leadership Programme is in its fifth year, recruiting and developing talented MBA graduates from international business schools; to date intake into the programme has been over 50% women.
- A number of programmes to help people in our communities, including Marks & Start, Marks & Start Logistics and Make Your Mark are successfully helping young people, the homeless, lone parents and those with disabilities, to find work in our stores and distribution centres.

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

We continue to regard the Board evaluation process as an important means of monitoring our progress. Full details of the 2015/16 Board evaluation and the Action Plan are on page 39. We remain committed to getting the right balance of internal versus external hires and work towards understanding and managing some of the challenges we face, such as:

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

ACCOUNTABILITY

AUDIT COMMITTEE
REPORT

The Committee **continue to challenge the risk and assurance programme**, ensuring it is embedded throughout the business.

ANDY HALFORD CHAIRMAN OF THE AUDIT COMMITTEE



INTRODUCTION

As Chairman of the Audit Committee, I am pleased to present the Audit Committee's report for the year ended 2 April 2016.

Over the following pages we share discussions from the boardroom and provide insight into the workings of the Audit Committee and its activities in the year, as well as update you on the effectiveness of our statutory auditor (Deloitte) and the fees they received for non-audit work undertaken. It provides an overview of the significant issues the Audit

Committee assessed and the Committee's opinion on the Annual Report when viewed as a whole, including how it has assessed the narrative reporting in the front of the report to accurately reflect the financial statements in the back.

This report also shares some of the insight we received from the executive updates presented to us from across the business. These continue to provide the Committee with real insight into the business's challenges and its aspirations. These also tell us how the risks are being managed and

mitigated throughout the organisation, as well as helping the Committee members understand the progress being made towards the strategic objectives. The updates provide us with an opportunity to challenge, discuss and debate with the presenters whilst sharing our experience and providing an independent perspective.

Looking forward to the next 12 months, the Committee will continue to focus on the audit, assurance, and risk processes within the business, as well as monitor changes in EU and UK regulation.

EFFECTIVENESS OF THE AUDIT COMMITTEE

As part of the annual review of the effectiveness of the Committee, the expertise of the members is considered and reviewed. The Board is satisfied that the Committee members bring a wide range and depth of financial and commercial experience across various industries, and that Andy Halford meets the specific requirement for recent and relevant financial experience.

AUDIT COMMITTEE ACTIVITY

- Remained focused on the audit, assurance and risk processes within the business, and maintained oversight of financial and other regulatory requirements.
- Reviewed the Group's system of internal control and risk management, and any changes in accounting policies and impact on our financial statements.
- Discussed and reviewed the non-underlying items that may impact the performance of the business.
- Reviewed the process and timeline for assessing the effectiveness of the external auditor.
- Provided oversight of particular business risks including International retail and ethical sourcing.

- Supported the work to draft the definitions of risk appetite for the business.
- Reviewed the design and scope of the assurance plan, with particular focus on key strategic priorities.
- Received and discussed specific business presentations relating to risks within the Group Risk Profile.
- Reviewed formal announcements on the Group's financial performance, including an assessment of the estimates and judgements.

Some members of senior management are invited to attend the Audit Committee meeting to provide technical business information as needed. Therefore, we allocated specific time for Committee members to meet without management present, prior to each meeting. At the end of each Committee meeting we meet separately with the lead audit partner from Deloitte and the Head of Internal Audit & Risk, to provide an opportunity to discuss matters without executive management being present. In addition, I regularly hold separate one-to-one meetings with the Chief Finance Officer, Director of Group Finance, Head of Internal Audit & Risk, other senior management, and with the lead audit partner. These are usually before Committee meetings as this enables me to better understand the issues and any areas of concern, and to allow sufficient time for meaningful discussion at the subsequent meeting.

MEMBER ATTENDANCE	MEMBER SINCE	NUMBER OF MEETINGS ATTENDED	MAXIMUM POSSIBLE MEETINGS	% OF MEETINGS ATTENDED
Andy Halford (Chairman)	1 Jan 2013	5	5	100%
Alison Brittain	11 Mar 2014	5	5	100%
Miranda Curtis	4 Mar 2015	4	5	80%
Andrew Fisher (Appointed 1 December 2015)	3 Feb 2016	1	1	100%
Martha Lane Fox (Retired 2 April 2016)	1 Jun 2007	5	5	100%

EFFECTIVENESS OF THE AUDIT COMMITTEE (CONTINUED)

AUDIT COMMITTEE ACTION PLAN

The Audit Committee's performance was reviewed within the framework of the wider Board Effectiveness Review. The Committee received positive feedback on the way it challenges the business and was seen as open, transparent and effective. Areas of improvement were highlighted, discussed and debated by the Committee, and included as part of the action plan for the coming year. The Committee made

good progress on the 2015/16 action plan by continuing to focus on our international business and ethical sourcing, monitoring the Group risk management process, and supporting the development of the assurance plan.

Looking ahead, the Committee will remain focused on the audit, assurance and risk processes within the business, and strengthen its oversight of financial and other regulatory requirements.

The action plan for 2016/17:

- Review the mitigating controls over the Group's principal risks and assess the level of assurance provided.
- Continue to support risk assurance mapping across the Group, with particular focus on strategic priorities.
- Increased oversight of the Board's management of cyber security risk.
- Monitor and respond to the changing regulatory environment.

EXTERNAL AUDITORS

TENURE

Deloitte were appointed by shareholders as the Group's Statutory Auditor in 2014 following a formal tender process. The external audit contract will be put out to tender at least every ten years.

The Committee recommend the reappointment of Deloitte for 2016/17. We believe the independence and objectivity of the external auditor and the effectiveness of the audit process are safeguarded and remain strong. The Company has complied with the Statutory Audit Services Order for the financial year under review.

The FRC's Audit Quality Review ('AQR') team selected to review the audit of the Company's 2014/15 financial statements as part of their 2015 annual inspection of audit firms. The focus of the review and their reporting is on identifying areas where improvements are required rather than highlighting areas performed to or above the expected level. The Chairman of the Audit Committee received a full copy of the findings of the AQR team and has discussed these with Deloitte. Whilst there were no significant findings, some matters were identified as requiring improvement and we have agreed an action plan with Deloitte to ensure the matters identified by the AQR have been addressed in the audit of the Company's 2015/16 financial statements.

EFFECTIVENESS

The assessment of the effectiveness of our external auditor is based on a framework setting out the key areas of the audit process for the Audit Committee to consider, as well as the role that management has contributed to an effective process.

The framework provides the Audit Committee with a mechanism to encourage management to improve standards in a number of key areas. These include ensuring

that information is presented with a culture of 'right first time'; that the quality of management papers is high, that robust internal systems and controls are maintained, that the audit process is respected and valued by the management team, and that proposed audit adjustments are examined seriously. The Committee believes that this framework provides a robust process for monitoring auditor effectiveness, and can be measured against the findings of future external auditor effectiveness surveys. Looking forward, the Committee will reassess the calendar timing of the effectiveness review to ensure maximum insight and efficiency is gained from the process.

The approach to the assessment is tailored to enable senior management to answer the detailed questions on the Company-wide audit process, and provide the Audit Committee with sufficient detail to establish an informed view on the overall efficiency, integrity and effectiveness of the external audit.

Questionnaires were tailored to the following target groups:

1. Chief Finance Officer and Director of Group Financial Control: A full questionnaire was completed, covering all areas of the audit process, and in consideration of the questionnaire completed by the Heads of Finance for Food, Clothing & Home and International.

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

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

WHAT WAS THE OUTCOME?

The results of the questionnaire were examined, and feedback identified a good understanding of the business and its values, a joined-up approach towards significant issues for discussion, and a team that offer robust challenge and technical insight. Areas for improvement were identified in relation to better communication during the audit, and more business insights.

NON-AUDIT FEES

A robust auditor engagement policy is in place and adhered to. It is reviewed annually and disclosed on marksandspencer.com/thecompany.

The business is committed to maintaining non-audit fees at a low level, and can report that the non-audit fees to audit fees ratio for the year was 0.17:1, compared to 0.49:1 last year. Of the total non-audit fees of £0.3m paid to Deloitte, £0.2m relates to assurance services in relation to the Half Year review, turnover certificates, and EMTN renewal. It is normal practice for such assurance services to be provided by the Company's statutory auditor. A number of smaller non-assurance services were provided, including in relation to taxation compliance in the International business, and these amounted to £0.1m.

Where non-audit work is performed by Deloitte, both the Company and Deloitte ensure robust processes to prevent auditor objectivity and independence from being compromised.

All non-audit work performed by Deloitte was put to the Audit Committee for consideration and approval, regardless of size.

Further details on non-audit services provided by Deloitte can be found in note 4 on page 96.

ACCOUNTABILITY

AUDIT COMMITTEE REPORT CONTINUED

AUDIT COMMITTEE UPDATES

The Committee receives a detailed update from the business at each committee meeting, with one or more areas represented. Business updates are planned on a rolling 12-month basis and reviewed at every meeting. Any matter identified by internal audit as in need of discussion is added to the agenda of a future meeting. Some of the 2015/16 updates are listed below:

CASTLE DONINGTON DISTRIBUTION CENTRE RESILIENCE

- Updated on Business Continuity, including contingency options and embedding the plan for e-commerce fulfilment.
- Discussed the triggers to the business continuity action plan and the service standards required to protect the Company in the situation of a triggered event, as well as consideration of customer expectations.
- Discussed the link between Castle Donington and store inventories.

CYBER SECURITY

- Updated on the cyber security measures in place at M&S, and noted the proactive approach adopted by the business.
- Discussed the protection around customer data, including encryption and regular reviews of the security measures in place.
- Updated on the external review of the company's cyber security systems, which were assessed against an external framework, and considered the proposed improvement plan.
- Agreed regular updates be provided to the Committee throughout the year.

BUSINESS CONTINUITY

- Updated on progress made in the international business following the implementation of several initiatives, including the increased levels of crisis management training.
- Discussed the current national threat level, level of preparedness with the introduction of shopping centre/retail park preparedness assessments, and key areas of improvement.
- Discussed the strategy and focus for 2016/17 which includes international retail and sourcing, cyber security, and global terrorism.

PROPERTY, FIRE, HEALTH, AND SAFETY

- Updated on the property Fire Health and Safety Management (FHSMS) Plan which includes safety arrangements, monitoring performance, and performance targets.
- Discussed the management of electrical safety and the policies and arrangements in place.
- Updated on the improvements to international governance, including a third-party FHSMS inspection plan, and our global minimum standard for FHSMS.
- Noted the continued partnership with Birmingham City Council for Health & Safety and the West Midlands Fire Service for fire safety, as well as partnerships with local NHS Ambulance Trusts and emergency responders.

GROSS MARGIN AND ETHICAL SOURCING

- Updated on the improvements in gross margin and sourcing strategy, key drivers to delivering the target growth in the plan, and key areas of risk.
- Noted the internal risks and impacts of external factors, including wage inflation and currency volatility risk, and discussed mitigating actions.
- Discussed supplier relationships and changes to team structure within our Sourcing Offices, leading to a change in culture.
- Updated on the ethical trading approach, including M&S standards and auditing, noting independent ethical audits undertaken by an accredited third party on all factories used by M&S.
- Discussed the ethical compliance monitoring process, reporting structure, and escalation procedures, and improvements made in this area.

GOVERNANCE AND COMPLIANCE

- Updated on the improvements to the whistleblowing policy, anti-bribery policy, and Code of ethics and behaviours, including stronger employee awareness and compliance monitoring.
- Discussed and reviewed the process undertaken by the Board to assess the long-term viability of the business.
- Updated on international compliance, and noted key risks and mitigating actions, and the continued support from Head Office to the local teams.

SIGNIFICANT ISSUES

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

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

The main areas of judgement that have been considered by the Committee to ensure that appropriate rigour has been applied are outlined in this section. All accounting policies can be found in note 1 on pages 90-94. Where further information is provided in the notes to the financial statements, we have included the note reference.

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

IMPAIRMENT OF GOODWILL, BRANDS TANGIBLE AND INTANGIBLE ASSETS

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

FAIR, BALANCED AND UNDERSTANDABLE

At the request of the Board, the Committee has considered whether, in its opinion, the 2015/16 Annual Report and Financial Statements is fair, balanced and understandable, and whether it provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The structure of the report continues to provide a strong focus on the key strategic messages in the Strategic Report, whilst ensuring these changes do not dilute the level of transparency in disclosure that we know is useful for stakeholders, and that the business continues to provide a clear message that is reflective of the Company as a whole.

A broad outline of the structure the Annual Report was given to the Committee early in the planning process, along with a similarly broad indication of content. The Committee received a full draft of the report some two weeks prior to the meeting at which it would be requested to provide its final opinion. Feedback was provided by the Committee in advance of that meeting, highlighting any areas where the Committee believed further clarity was required. The draft report was then

of impairments, valuation methodology, the basis for key assumptions (discount rate and long-term growth rate) and the key drivers of the cash flow forecasts. The Committee has challenged management and is satisfied that these are appropriate. The Committee has also understood the sensitivity analysis used by management in their review of goodwill and brand impairment. In addition, the business plans detailing management's expectations of future performance of the businesses are considered by the Board. The Committee is satisfied that appropriate impairment of tangible and intangible assets has been recognised. **See notes 5, 14 and 15 on pages 97, 98, 108 & 109**

INVENTORY VALUATION AND PROVISIONING

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

PRESENTATION OF THE FINANCIAL STATEMENTS

The Committee gave consideration to the presentation of the financial statements and in particular the presentation of the non-

underlying measures in accordance with the Group accounting policy. This policy states that adjustments are only made to reported profit before tax where income and charges are one-off in nature, significant, and distort the Group's underlying performance. The Committee received detailed reports from management outlining the judgements applied in relation to the disclosure of non-underlying items. In the current year, management has included profit on property disposal and impairments of properties where commitment to close has been demonstrated, restructuring costs, significant and one-off impairment charges and provisions, fair value movement of financial instruments and the reduction in M&S Bank income for the impact of the financial product mis-selling provision within this category. This was an area of focus for the Committee in the current year due to the number and value of these items (£200.8m charge). In addition, the current year is a 53-week statutory reporting period so consideration had been given to the balance of 52-week and 53-week metrics reported throughout the Annual Report. 52-week measures have been quoted to ensure meaningful comparison with last year's 52-week period. Following detailed review and active discussion with management the Committee has concluded that the presentation of non-underlying items and 52 and 53-week metrics throughout the Annual Report and Financial Statements is appropriate. **See note 5 on p97**

RETIREMENT BENEFITS

The Committee has reviewed the actuarial assumptions such as discount rate, inflation rate, expected return of scheme assets and mortality which determine the pension cost and the UK defined benefit scheme valuation, and has concluded that they are appropriate. The assumptions have been disclosed in the financial statements. **See note 11 on p102-105**

REVENUE RECOGNITION IN RELATION TO REFUNDS, GIFT CARDS AND LOYALTY SCHEMES

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

SUPPLIER INCOME

This continues to be monitored closely by management and robust controls are in place to ensure appropriate recognition in the correct period. The Committee are satisfied with management's conclusion that there is no risk of material misstatement. Enhanced disclosure has been made again in the current year through publication of the accounting policy and disclosing the effects of supplier income on certain balance sheet accounts.

amended to incorporate this feedback prior to being tabled at the Audit Committee meeting for final comment and approval.

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

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

IS THE REPORT FAIR?

→ Is the whole story presented and has any sensitive material been omitted that should have been included?
→ Is the reporting on the business segments in the narrative reporting consistent with those used for the financial reporting in the financial statements?

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

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

IS THE REPORT BALANCED?

→ Is there a good level of consistency between the narrative reporting in the front and the financial reporting in the back of the report, and does the messaging reflected in each remain consistent when read independently of each other?
→ Is the Annual Report properly a document for shareholders?
→ Are the statutory and adjusted measures explained clearly with appropriate prominence?
→ Are the key judgements referred to in the narrative reporting and the significant issues reported in this Audit Committee Report consistent with the disclosures of key estimation uncertainties and critical judgements set out in the financial statements?

→ How do these compare with the risks that Deloitte plan to include in their report?

IS THE REPORT UNDERSTANDABLE?

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

CONCLUSION

Following its review, the Committee was of the opinion that the 2016 Annual Report and Accounts is representative of the year and presents a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

ACCOUNTABILITY

AUDIT COMMITTEE REPORT CONTINUED

ASSURANCE AND INTERNAL CONTROL ENVIRONMENT

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

⊕ See p27-29 of the Strategic Report for more information on our material risks.

⊕ See p47-48 for further information on our risk management processes.

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

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

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

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

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

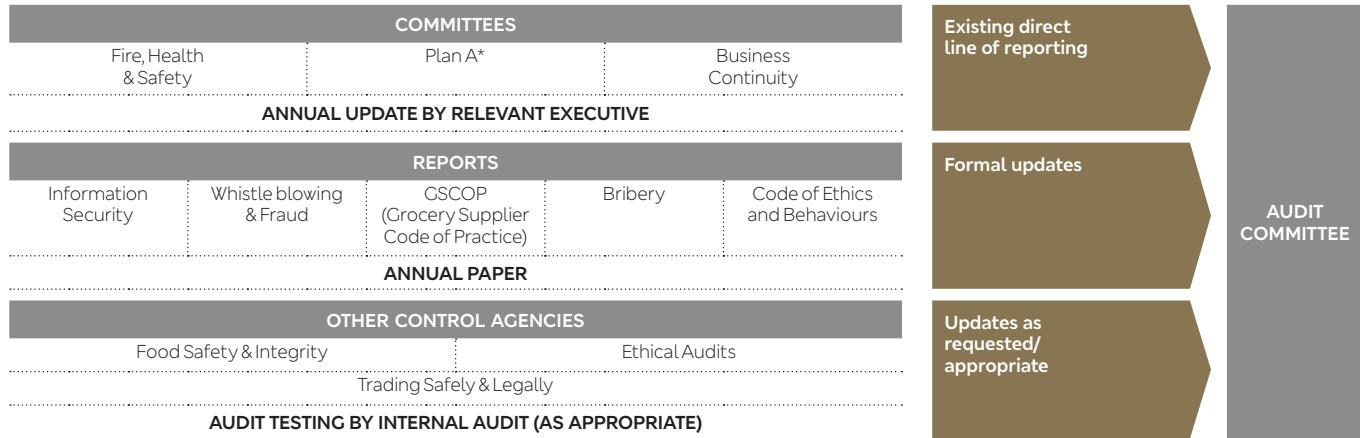
The Group was compliant throughout the year with the provisions of the UK Corporate Governance Code relating to internal controls and the FRC's revised Turnbull Guidance on Internal Control. No significant failings or weaknesses were identified during the Committee's review in respect of the year ended 2 April 2016 and up to the date of this Annual Report.

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

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

Andy Halford
Audit Committee Chairman

INTERNAL ASSURANCE FRAMEWORK



* Reports directly to the Group Board.

ACCOUNTABILITY

RISK IN ACTION

RISK AND THE ROLE OF INTERNAL AUDIT

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

RISK: CLOTHING & HOME TRANSFORMATION

Improving product availability to customers in-store and online is a key priority and Internal Audit reviewed the process to allocate the stock available in our warehouses. Our audit found opportunities to improve the reconciliation of stock data, to ensure that allocation decisions are made based on the most current and accurate stock data possible. We also found that availability targets used within the

business are not wholly aligned with our customers' view of availability. These challenges have led to manual intervention in the allocation process, impacting the efficiency of operations. The audit findings support the transformation activities underway in Clothing & Home.

RISK: INTERNATIONAL

India is a key growth market for our International business. Internal Audit assessed the scalability of business operations to support this growth, including the clarity of plans to deliver against the strategy, the adequacy of core logistics processes and the management of new store build and development projects. We found the customer proposition to be clearly defined, with a range of store formats trialled prior to wider rollout. New tools and processes have been implemented at the India warehouse to improve stock management and capacity controls, although product labelling enhancements are required to speed up the movement of stock through the warehouse. Robust project management controls are in place over new store build and development projects.

RISK: CLOTHING & HOME SUPPLY CHAIN AND LOGISTICS NETWORK

In April 2016 we began the phased implementation of a new automated warehouse in Bradford, as part of our wider supply chain and logistics transformation. Internal Audit reviewed governance over the project testing phase supporting this launch, including the adequacy of testing standards and the management of test exceptions. Our audit found the governance over testing to be robust; however, there were opportunities to improve record keeping relating to defect management and to incorporate the re-testing of changes into resource plans. The audit recommendations were applied to the remaining testing phases, ahead of the warehouse launch.

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.

OUR APPROACH TO ASSESSING LONG-TERM VIABILITY

As highlighted last year, the UK Corporate Governance Code now requires us to issue a 'viability statement' declaring whether we believe the Company is able to continue to operate and meet its liabilities, taking into account its current position and principal risks. The overriding aim is to encourage directors to focus on the longer term and be more actively involved in risk management and internal controls; an important part of stewardship. The Board are required to assess the Company's viability over a period greater than 12 months. The M&S Board have selected a three year assessment period as this aligns with how we plan, measure performance, and remunerate at a senior level.

The process adopted to assess the viability of the Company involved collaborative input from a number of functions across the business to model a series of theoretical 'stress test' scenarios linked to the Group's principal risks, in the context of the three year plan. Examples include significant interruption to our business as a result of a cyber-attack or infrastructure

failure, and brand impacting incidents driven by product sourcing failures. Consideration was also given to the strength of the control environment and its impact in mitigating risk, as well as inevitable interdependencies. Scenarios were then reviewed against the Group's current and projected liquidity position, considering current committed lending facilities. To support the final conclusion on viability, the assessment also took account of additional potential mitigations available to the business in the event of further downside factors. An overview of the process undertaken was provided to the Audit Committee and reviewed for completeness. The viability evaluation was then provided to the Board to assist in its assessment.

In assessing viability the Board has considered a number of key factors, including our business model (see page 10), our strategy (see pages 6-8), risk appetite (see page 48) and our principal risks and uncertainties (see pages 28-29). These have been reviewed in the context of our current

position and financial planning process, specifically the annual forecast and three year plan. The directors also satisfied themselves that they have the evidence necessary to support the statement in terms of the effectiveness of the internal control environment in place to mitigate risk.

In making the statement, the directors have applied the following assumptions:

- Capital markets will be closed and any bond maturing during the assessment period will be refinanced through our existing facility;
- Net capital investment will remain in line with expectations; and
- In the event that the UK votes to leave the European Union, the terms of exit are such that the business would be able to continue to operate broadly in line with current operations.

The Board are in agreement that M&S is a viable business. The Viability Statement can be found on page 77.

ACCOUNTABILITY

RISK IN ACTION CONTINUED

OUR APPROACH TO RISK APPETITE

The UK Corporate Governance Code requires companies to define their risk appetite in terms of the nature and extent of the principal risks they are willing to take in achieving strategic objectives. In real terms it is an expression of the type and amount of risk that the company is prepared to take; by clearly defining this our business benefits in a number of ways. Not only does it promote consistent, risk-informed decision-making across the Group that is aligned with our strategic aims, it also supports robust corporate governance by setting clear risk-taking boundaries.

Our approach to risk appetite has evolved during 2015/16, building on the foundations put in place last year. Following a review of the draft statements prepared in 2014/15, the Board have now agreed a set of Group-level risk appetite statements that address key risk areas and specific business operations; they are also designed to support the business in its management of

a number of principal risks. The statements articulate the normal risk parameters within which the Group operates; this is reflective of the fact that our business is already governed by robust policies and procedures.

Our risk appetite statements cover a wide range of topics from Clothing & Home ethical sourcing and food safety and integrity through to our core values and behaviours. The size and diverse nature of our business means that there is no 'one size fits all' approach to establishing risk parameters. Whilst it is important that these are clearly defined, it is also essential that we foster an environment where innovation and entrepreneurial activities thrive. At times there may be merit in operating outside of agreed risk parameters but proposed exceptions will need to be escalated to senior management for debate and approval before activities commence, ensuring that appropriate mitigating controls are in place.

Our work is ongoing. As the business evolves during 2016/17 we will continue to assess whether we have the right risk appetite statements in place, and to consider additional topics, including emerging risks. We also plan to incorporate our work on risk appetite into our existing Group Risk process to promote consistent consideration of risk and reward across the Group.

EXAMPLE RISK APPETITE STATEMENT

Each agreed risk appetite statement is designed to provide guidance on the nature and extent of risk that the Group is prepared to take in achieving its strategic aims and operational objectives. For example:

Food safety and integrity – We only sell food products that meet our safety and integrity Codes of Practice. This is managed throughout the product lifecycle, and assessed via our Food Safety and Food Integrity audit programmes.

RISK INTERDEPENDENCY

We recognise that there is significant interdependency between our key risks.

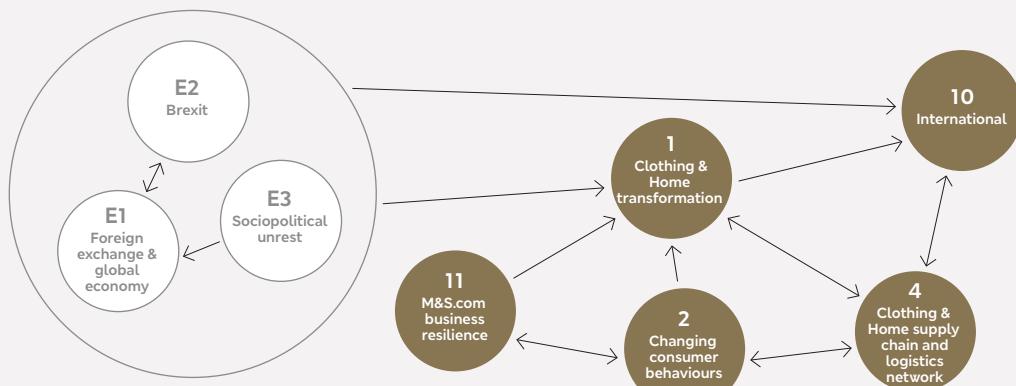
This diagram, based on an extract from our current Group Risk Profile, highlights how changes to one risk could impact on those connected to it. By understanding the relationship between our key risks if they were to materialise, we are better placed to ensure that we are managing them appropriately and to understand our broader risk exposure.

The following is an illustrative example of a potential scenario:

In order to strengthen the performance of our Clothing & Home business (1), both in the UK and internationally (10), we need to ensure we keep abreast of, and adapt to, changing consumer behaviours (2). A critical part of this is ensuring that our customer proposition is well executed, including maximising product availability and the speed of delivery to customers

(4), as well as ensuring the resilience of our online business (11). We recognise that business performance is also affected by external factors, the causes of which are primarily out of our control. These include fluctuations in foreign exchange rates and the global economy (E1) (encompassing uncertainties conferred by the upcoming referendum on Britain's membership of the European Union (E2)), along with global sociopolitical unrest (E3).

⊕ See Risk Management on p27-29



ENGAGEMENT

STAKEHOLDER ENGAGEMENT

ROBERT SWANNELL CHAIRMAN

In my introduction on page 30 I touched on the importance of having a clearly defined Board culture and ensuring that the way in which the Board operates as a team is fully integrated with our values. This is equally important in determining the Board's approach to engaging with our investors, as we believe that staying in touch with them through regular, open dialogue and candid debate forms the strong foundation of this important relationship.

Inevitably, there will be areas in which our views and those of our investors will diverge. However, we firmly believe that encouraging points of difference to be debated openly is a significant advantage, helping us to understand the concerns of our investors while framing the discussion in the context of our wider business objectives to ensure we are clear about what we are trying to achieve.

We believe that our trusted relationship with our shareholders is enhanced by our commitment to staying in touch with them

AMANDA MELLOR GROUP SECRETARY

In addition to remaining in touch with our investors, we also believe in utilising M&S's unique heritage and long history to engage beyond this 'traditional' stakeholder group. In last year's Annual Report I highlighted the innovative contributions towards this from our acclaimed Company Archive in Leeds, which I am pleased to say continued its record of consistent excellence over the course of the year.

During 2015 the archive continued to improve the accessibility of its collection through digitisation, adding a further 2,600 archives to its online catalogue. As a result, the number of students, academics and members of the public using the collection for research purposes has increased by 61%.

The archive also broadened its award winning education programme, partnering with the Prince's Trust to introduce workshops to support children who have been or are at risk of exclusion from school. Alongside this direct work with schools, the archive also expanded its successful Heritage Ambassador Scheme to the South London region in 2015. To date, these Ambassadors have helped M&S stores to connect with local schools by delivering 25 workshops focussing on the history of M&S, Plan A and the environment to over 650 school children.

throughout the year and not just at our AGM. During the year, the business had 431 contacts with 253 separately identifiable institutions via one-to-one or group meetings hosted by an executive director or our Investor Relations team. For my part, I have had discussions on a variety of governance matters with numerous investors, industry representatives and Chairs of other leading FTSE companies. Additionally, in June I once again hosted our annual Governance Event, details of which are provided on the right.

We also stay in touch with the views and opinions of our private investors by engaging with a number of leading client brokers who typically represent our private shareholder base. Our Investor Relations team receive independent guidance from capital markets advisory firm Makinson Cowell, which undertakes an annual audit of our major investors' views on the Company's management and performance. The results of its audit are presented to the Board each year.

The archive has also excelled in developing initiatives that draw from M&S's heritage to engage with communities on important issues such as dementia support. It has introduced reminiscence sessions for groups visiting from care homes and day centres, and in 2016 launched its own monthly Memory Café in conjunction with the Alzheimer's Society. Additionally, the archive offers a range of digital reminiscence resources for people living with dementia, their families and carers, utilising images and samples of products from decades past to encourage social interaction through the sharing of experiences. Over 900 people to date have been engaged through these reminiscence sessions and digital resources, more information about which is available at marksintime.marksandpencer.com.

The work undertaken by the archive is underpinned by our close partnership with the University of Leeds, to which I am proud to make my own contribution by promoting the importance of ethical leadership as a Visiting Professor of the University's Ethics Centre.

GOVERNANCE EVENT

The annual M&S Governance Event is hosted by the Chairman, Robert Swannell, and is attended by our Senior Independent Director, Committee Chairmen and senior representative(s) of our Plan A department. Board attendees in 2016 will be Vindi Banga (Senior Independent Director and Chairman of our Remuneration Committee), Andy Halford (Chairman of our Audit Committee), Amanda Mellor (Group Secretary and Head of Corporate Governance) and Adam Elman (our Head of Global Plan A Delivery).

Invitations are sent to our 30 largest shareholders, plus representatives from influential investor advisory firms and industry governance specialists. The event is an opportunity to meet and discuss the wide range of matters considered by the Board, both during the year and going forward. Presentations at the meeting will focus on the following six areas:

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

The presentation will be available to view at marksandspencer.com/thecompany following the event.

AGM

The 2016 AGM will be held at Wembley Stadium in London on Tuesday 12 July at 11am. The Notice of Meeting sets out the schedule for the day and the resolutions to be proposed at the meeting. A copy of the Notice can be downloaded at marksandspencer.com/thecompany. The meeting will be webcast live and a recording made available on our website after the event.

The Board and M&S's senior management team will be available for shareholders to speak to before the meeting. Robert Swannell and the Chairs of our Committees will be available to answer shareholders' questions during the formal proceedings of the meeting.

The AGM in 2015 was well-attended and all of the proposed resolutions were passed, with the percentage of the Company's share capital voted in favour of each ranging from 89.34% to 99.99%.

+ See Shareholder information on p127-128

REMUNERATION

REMUNERATION
OVERVIEW

We are committed to **fair and motivating remuneration**, and to creating value for our shareholders.

VINDI BANGA CHAIRMAN OF THE REMUNERATION COMMITTEE



On behalf of the Board, I am pleased to present our Remuneration Report for 2016. We have sought to improve our disclosures further this year. As a result, we have introduced a summary section highlighting the key elements of our remuneration framework. This 'Remuneration at a Glance' overview is intended to illustrate our Remuneration Policy in action, the alignment between our senior remuneration strategy and the Company's performance for the 2015/16 financial year.

This year, we have also summarised the Remuneration Policy approved by shareholders at the 2014 AGM rather than reproduce the Policy in full. This gives an overview on the directors' annual remuneration framework.

BOARD CHANGES

As highlighted earlier, there were a number of changes to the Board during the year. Helen Weir joined us in April 2015, John Dixon left in July 2015 and Marc Bolland retired from the Board in April 2016. I believe that our Remuneration Policy provides the flexibility to manage our pay arrangements while providing certainty to our shareholders that any payments made in the implementation of our Policy are in the best interests of both the Company and our shareholders.

After a rigorous selection process, I am delighted that we appointed Steve Rowe to succeed Marc Bolland as Chief Executive Officer with effect from 2 April 2016. The remuneration arrangements relating to Steve in this report cover his roles during the year; as the Executive Director for Food and later for CM. Steve's remuneration as Chief Executive Officer began after the financial year-end. Full details for

Steve's appointment were disclosed at the time and are detailed later in this report on page 68 with a starting salary in this role of £810,000. In line with the provisions in the Policy, the Committee intends that Steve's salary will be reviewed annually reflecting performance and operational delivery. The first review will be in July 2017, 15 months after his appointment.

PAY AND PERFORMANCE

The charts shown on pages 52 and 53 demonstrate the clear linkage between M&S business strategy and payments made to the executive directors.

The key business priorities are referenced on pages 18 to 21 of this report and the executive directors' bonus measures for the year were aligned with this focus. In addition, each executive director was set a number of strategic priorities which the Committee considered relevant to the delivery of the short- to medium-term goals in their areas of responsibility.

Annual Bonus Scheme

As highlighted earlier, our performance during the year was mixed. Overall underlying profits were up 3.5% with strong cash flow delivery. We delivered positive Food growth in a tough market; improved customer experience of M&S.com, and progressed our end to end Clothing & Home supply chain infrastructure. In Clothing & Home, margins improved but sales performance was unsatisfactory. Our International business was impacted by a number of macro-economic factors and operational challenges.

Bonus payments to the executive directors were determined by the above performance, as well as an evaluation of

individual performance against a number of challenging targets and average around 35% of maximum (70% of salary).

Taking into account overall Company performance and balance of the team, the Committee determined that the bonus for the CEO be subject to a discretionary downward adjustment of 20% (from c.80% to c.64% of salary). Bonus payments awarded to the executive team are summarised on page 60. We are satisfied that the payments to the CEO, the executive directors and elsewhere in the business are fair and balanced in the context of overall Company performance.

Performance Share Plan

The Performance Share Plan awards granted in 2013 were measured for the three year period up to 2 April 2016 against challenging EPS, ROCE and revenue targets. As a result, executive directors will receive only 4.8% of the original award when it vests in June 2016. Full details are provided on page 62.

SALARY INCREASES

While the Committee was minded to award an annual increase of 2% of salary to Patrick Bousquet-Chavanne, Helen Weir and Laura Wade-Gery, all executive directors have declined their respective pay increases, in recognition of the new pay arrangements proposed across the rest of the UK business. All executive directors have similarly stated that they will decline their annual salary reviews in July 2017, should the Committee deem it appropriate to award any increases at that time. The Committee are fully supportive of their collective decision to support the business in ensuring pay arrangements are affordable and appropriate across M&S.

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- ⊕ Recruitment policy p55
- ⊕ Termination policy p56
- ⊕ Non-executive directors' remuneration policy p57

REMUNERATION REPORT p58

- ⊕ Strategic alignment of pay p58
- ⊕ Total single figure remuneration p58
- ⊕ Salary and benefits p59
- ⊕ Annual Bonus Scheme p60-61

- ⊕ Performance Share Plan p62-63
- ⊕ Directors' share interests p64-66
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- ⊕ Remuneration Committee p70-71

LOOKING AHEAD

Looking ahead to 2016/17, remuneration arrangements will be broadly in line with 2015/16 and will be aligned with the new chapter and strategy being developed for M&S. Incentives will support Steve's strategic direction for the business, his clear focus on our customer, simplicity and teamwork while running the business profitability for our shareholders. Directors will again be eligible to participate in an Annual Bonus Scheme which for this year will be focused on building solid foundations of profit growth in the business (70% of awards will be measured against Underlying Group Profit Before Tax targets). Individual performance will continue to be relevant as we seek improvements in a number of key areas of priority which are necessary for the future growth of M&S. This structure is strongly aligned to the bonus scheme arrangements in place for the wider workforce, which was a consideration in the Committee's discussions.

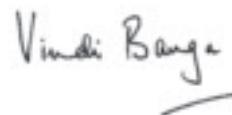
Further Committee debates for incentive schemes for 2016/17 were related to the appropriateness of performance measures and targets for long-term incentive arrangements under Steve Rowe's new leadership. Considerable work is currently underway to review and redefine our long-term goals and the Committee wishes to ensure that the Performance Share Plan is aligned to this strategic review. The Committee believes it is vital that the performance targets in the Performance Share Plan are not only aligned to these goals but are motivational for participants. As a result, the Committee decided that awards under the Performance Share Plan

will be granted in November 2016, shortly after the announcement of the Interim results. This will ensure that we can set stretching yet achievable targets which are within the approved Remuneration Policy and designed to deliver increased shareholder value.

This will be the final year under the current remuneration framework as we will be seeking your support and approval for a new Remuneration Policy at the 2017 AGM. We are committed to ensuring that the executive directors' pay arrangements support and drive the business strategy and are balanced between motivating and challenging our senior leaders to grow the business and deliver value to shareholders.

We will be supported by our Committee advisors in setting the new Remuneration Policy to ensure that it aligns with the

business drivers and goals to deliver strong performance and sustainable shareholder returns. We will seek to engage with our major shareholders as part of this process to reflect their views and to maintain our ongoing dialogue on director pay arrangements. Together with the rest of the Board, I look forward to hearing your views on our remuneration arrangements and will be available to answer any questions you may have at the AGM.



Vindi Banga

Chairman of the Remuneration Committee

REMUNERATION COMMITTEE

The following independent non-executive directors were members of the Committee during 2015/16:

MEMBER	MEMBER SINCE	MAXIMUM POSSIBLE MEETINGS	NUMBER OF MEETINGS ATTENDED	% OF MEETINGS ATTENDED
Vindi Banga (Chairman)	1 September 2011	6	6	100
Robert Swannell	1 March 2015	6	6	100
Miranda Curtis	1 February 2012	6	6	100
Richard Solomons	21 July 2015	3	3	100

EXECUTIVE REMUNERATION 2015/16

REMUNERATION
AT A GLANCE

This overview summarises our Policy in action and shows the alignment between our remuneration framework, the Company's performance and payments to directors for 2015/16.

STRATEGIC PAY ALIGNMENT 2015/16

[+ See more on p58](#)

The table below shows the integration between M&S's financial key performance indicators as shown on page 18 and the senior remuneration framework for 2015/16.

This clearly demonstrates a strong linkage between performance metrics, payments to directors and business performance over the short- and long-term.

Further details of the alignment with non-financial and strategic measures are set out in the table on page 58.

KPI	Incentive scheme	Impact on incentive payment for 2015/16
Group Revenue	● Performance Share Plan	Multi-channel revenue was the only metric above threshold target for the year resulting in 4.8% vesting of PSP awards under this element.
Underlying Group Profit Before Tax (PBT)	● Annual Bonus Scheme	Underlying Group PBT for the year was £684.1m, and above the target set for bonus payments to begin. For executive directors, 5.9% of bonus was payable as a result of 2015/16 PBT results.
Return on Capital Employed (ROCE)	● Performance Share Plan	Average three-year ROCE performance of 14.7% (which included 15.0% achievement for 2015/16) was below the threshold required for this element of the PSP to vest.
Underlying Earnings per Share (EPS)	● Performance Share Plan	EPS growth was 2.9% over the three years ending in 2015/16 (based on an outturn of 34.8p for this year) and was below the 5% growth required for vesting under the PSP.
Free cash flow¹	● Annual Bonus Scheme	Free cash flow performance for the year was above the maximum target. The Committee felt it appropriate to adjust downwards the outturn for bonus purposes as a result of items such as project delays resulting in an achievement of 18.2% of bonus.

1. Pre shareholder returns and pre acquisition of subsidiary.

[+ See full Strategic alignment of pay on p58](#)

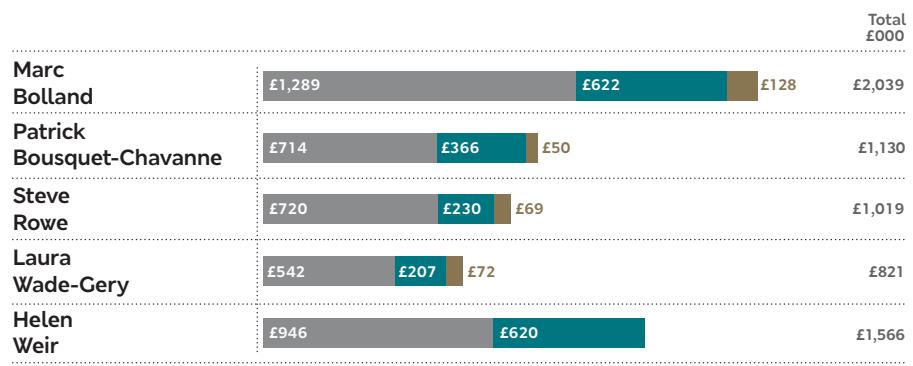
SINGLE FIGURE REMUNERATION 2015/16

[+ See more on p58](#)

The graph opposite summarises the total payments made to executive directors in respect of the 2015/16 financial year. These figures illustrate those detailed in the single figure table later in this report.

Fixed pay comprises salary, benefits and pension benefits. Further information on payments made under the Annual Bonus Scheme and Performance Share Plan as a result of one- and three-year performance respectively is illustrated on page 53, with full detail provided later in this report.

[+ See more on Single Figure Remuneration on p58](#)



[+ See Annual Bonus Scheme on p53 & p60-61](#)

[+ See PSP on p53 & p62-63](#)

KEY PERFORMANCE MEASURES

GROUP REVENUE

£10.4bn

UNDERLYING PBT

£684.1m

RETURN ON CAPITAL EMPLOYED

15.0%

EARNINGS PER SHARE

34.8p

FREE CASH FLOW (PRE SHAREHOLDER RETURNS)

£539.3m

ALIGNED TO REMUNERATION

Performance Share Plan (PSP)

Annual Bonus Scheme

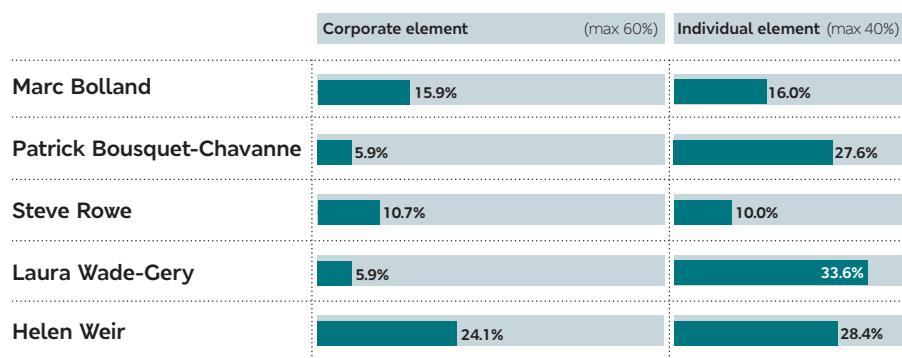
ANNUAL BONUS SCHEME 2015/16

+ See more on p60-61

Bonus payments made in respect of performance for the year were between 21% and 53% of maximum bonus opportunity. This resulted in payments ranging from £207,000 to £622,000 with half of all amounts being deferred into shares for three years, subject to malus provisions being met.

Further detail of the performance targets and the extent to which each were achieved are shown on page 60 of this report.

+ See more on Annual Bonus Scheme on p60



Maximum bonus possible

Actual bonus earned

PERFORMANCE SHARE PLAN (PSP) 2015/16

+ See more on p62-63

The chart opposite illustrates the results of the three-year performance against the PSP targets which were set in 2013. Awards will vest in June 2016, with an estimated vesting value detailed in the single figure table.

EPS weighting/performance

Three-year EPS growth of 2.9% was below the 5% required for threshold vesting.

ROCE weighting/performance

Average ROCE over the last three years was 14.7%, below the 15.0% required for this element of the award to vest.

Revenue weighting/performance

As a result of 2015/16 Multi-Channel revenue performance, 4.8% of awards will vest. Other revenue measures were not met, meaning these elements of the award will lapse.

+ See more on Performance Share Plan on p62

PSP performance weighting

EPS

Maximum possible
Actual performance

50%
0%

ROCE

Maximum possible
Actual performance

20%
0%

Revenue*

Maximum possible
Actual performance

30%
4.8%

*Weighting (by revenue source)

UK
International
Multi-channel

10%
10%
10%

GOVERNANCE

REMUNERATION

SUMMARY REMUNERATION POLICY

This report sets out a summary of M&S's policy on remuneration for executive and non-executive directors. The Policy in full was approved by shareholders at the AGM on 8 July 2014

and can be found on our website at marksandspencer.com/thecompany. The Policy took effect from this date and may operate for up to three years.

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

SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 8 JULY 2014)

FIGURE 1: SUMMARY EXECUTIVE DIRECTORS' REMUNERATION POLICY TABLE

ELEMENT	OPERATION	OPPORTUNITY
Base salary	<p>Salaries are reviewed annually by the Committee, considering a number of factors, including:</p> <ul style="list-style-type: none"> → Salary increases in the wider M&S workforce. → The experience, responsibility and contribution of the individual. → Salaries for comparable roles in appropriate comparator groups (such as major retailers and our peer group of FTSE 25-75 companies). 	<p>Annual increases are normally in line with those in the wider workforce, although no maximum is set.</p> <p>Individual adjustments may be made in appropriate circumstances (e.g. where the role scope has changed or as part of salary progression for newly-appointed directors).</p>
Benefits	<p>In line with our policies, executive directors are eligible to receive benefits which may include:</p> <ul style="list-style-type: none"> → A car or cash allowance and a driver. → Life assurance. → Relocation and tax equalisation allowances in line with our mobility policies. <p>As with all employees, directors are also offered other benefits including:</p> <ul style="list-style-type: none"> → Employee discount. → Salary sacrifice schemes. → Participation in our all-employee share schemes. 	<p>There is no set maximum, however any provision will be commensurate with local markets and for all-employee shares schemes, the local statutory limits.</p>
Pension benefits	<p>Executive directors may choose to:</p> <ul style="list-style-type: none"> → Participate in our defined contribution pension scheme; or → Receive cash payments in lieu of pension contributions. <p>The defined benefit pension scheme is closed to new members. Directors who are members of this scheme will continue to accrue benefits.</p>	<p>A maximum of 25% of salary for executive directors (30% for the CEO).</p>
Annual Bonus Scheme including Deferred Share Bonus Plan (DSBP)	<p>All directors are eligible to participate in the Annual Bonus Scheme, which is a discretionary, non-contractual scheme. Performance is measured against quantifiable one-year financial and individual performance targets linked with the sustainable delivery of our business plan. Targets are set at the start of the year and approved by the Remuneration Committee. At least half of awards are measured against financial measures which typically includes Underlying Group Profit Before Tax (PBT).</p> <p>Corporate and individual elements may be earned independently, but no part of the individual objectives may be earned unless a 'threshold' level of PBT has been achieved. For threshold performance, up to 40% of maximum may be payable for the achievement of individual objectives.</p> <p>At least half of any bonus earned is paid in shares which are deferred for three years. The value of any dividends during the deferral period will be payable.</p> <p>The Committee can, in circumstances it believes appropriate, reduce to zero unvested deferred share awards. In certain circumstances, the Committee can also reclaim all or part of the cash bonus for up to three years after the payment date, for payments made after July 2015.</p>	<p>Total maximum annual bonus opportunity is capped at 200% of salary for each executive director.</p>
Performance Share Plan (PSP)	<p>To encourage long-term shareholding, to retain directors and to provide greater alignment with shareholders' interests, all directors are eligible to participate in the Performance Share Plan. This is a non-contractual, discretionary scheme and is M&S's main long-term incentive scheme. Performance is measured against a balanced scorecard of three-year financial measures set prior to grant. Measures currently include Earnings per Share (EPS) and Return on Capital Employed (ROCE).</p> <p>The value of any dividends during the vesting period will be payable.</p> <p>The Committee can, in circumstances it believes appropriate, reduce to zero unvested PSP awards. In addition, the Committee can, for awards made after June 2015, reclaim all or part of vested awards for up to two years after the vesting date in certain specified circumstances.</p>	<p>The maximum annual value of shares at grant is capped at 300% of salary for each executive director.</p>

FIND OUT MORE

⊕ See Remuneration Report p58 ⊕ See our Strategy p06-08 ⊕ See our KPIs p18-21

⊕ Read our full Remuneration Policy at www.marksandspencer.com/thecompany

EXECUTIVE DIRECTORS' REMUNERATION POLICY CONTINUED

FIGURE 2: RECRUITMENT POLICY & SERVICE CONTRACTS

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

ELEMENT	APPROACH
Service contract	→ All executive directors have rolling contracts for service which may be terminated by M&S giving 12 months' notice and the individual giving six months' notice.
Base salary	→ Salaries are set by the Committee, taking into consideration a number of factors including the current pay for other executive directors, the experience, skill and current pay level of the individual and external market forces. → The Committee may choose to set the salary below that of the market or the other directors with the intention of applying staged increases.
Benefits	→ The Committee will offer a benefits package in line with our benefits policy for executive directors. The benefits provided will appropriately reflect the individual's circumstances.
Pension benefits	→ Maximum contribution in line with our Policy.
Annual Bonus Scheme	→ Maximum bonus potential will be capped at 200% of salary in line with our Policy.
PSP	→ Maximum award of up to 300% of salary in line with our Policy.
Buy-out awards	→ The Committee may offer compensatory payments or buy-out awards where an individual forfeits outstanding variable pay opportunities or contractual rights as a result of their appointment with M&S. → The specifics of any buy-out awards would be dependent on the individual circumstances of recruitment and would be determined on a case-by-case basis. On assessing such awards, the Committee will seek to make awards on a like-for-like basis to ensure that the value awarded would be no greater than the value forfeited by the individual. The Committee may choose to apply performance conditions to these awards.
<p>In addition, the Committee in exceptional circumstances has discretion to include any other remuneration component or award which it feels is appropriate, taking into account the specific circumstances of the individual, subject to the limit on variable remuneration set out above. The rationale for any such component would be appropriately disclosed. For example, for internal promotional appointments to the Board, the Committee would honour any pre-existing contractual remuneration arrangements which may be outside of the standard policy summarised on page 54.</p>	

REMUNERATION POLICY
CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION POLICY CONTINUED

TERMINATION POLICY

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

The Company's policy toward exit payments allows for a variety of

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

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

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

FIGURE 3: TERMINATION POLICY

ELEMENT	APPROACH
Base salary, benefits and pension benefits	→ Payment made up to the termination date.
Annual Bonus Scheme	→ There is no contractual entitlement to a bonus payment. If the director is under notice or not in active service at either the end of the bonus year or on the payment date, awards (and any unvested deferred bonus shares) may lapse. The Committee may, however, use its discretion to make a bonus award, typically pro-rated for time and based on the performance assessed at the end of the bonus year.
Long-term incentive awards	→ The treatment of outstanding share awards is determined in accordance with the respective plan rules. → Where a director leaves in certain circumstances, for performance share awards held for at least 12 months, awards typically vest at the end of the relevant performance period (to the extent to which any performance conditions are met) and are pro-rated for time. The plan rules allow for the Committee to permit these awards to vest at the time the director leaves and to not apply time pro-rating.
Repatriation	→ M&S may pay for repatriation where a director has been recruited from overseas.
Legal expenses & outplacement	→ Where a director leaves by mutual consent, M&S may reimburse for reasonable legal fees and pay for professional outplacement services.

CONSIDERATION OF WIDER WORKFORCE PAY & SHAREHOLDER VIEWS

The Committee monitors and reviews the effectiveness of the senior remuneration policy and has regard to its impact and compatibility with remuneration policies in the wider workforce. Throughout the year the Committee is provided with information and context on pay in the wider workforce to enable its decision-making. This includes the approach for UK pay review, the total annual bonus cost budget and PSP awards to be made to directors below the Board.

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

The Committee is committed to an open and transparent dialogue with its shareholders. The Committee annually engages in a process of investor consultation, which is typically in written format. Where appropriate, the Committee will actively engage with shareholders and shareholder representative bodies, seeking views which may be taken into account when making any decisions about changes to the directors' Remuneration Policy.

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

SUMMARY NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY (AS APPROVED ON 8 JULY 2014)

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

FIGURE 4: SUMMARY NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY TABLE

ELEMENT	OPERATION AND OPPORTUNITY
Service agreements	→ All non-executive directors have an agreement for an initial three-year term. The Chairman's agreement requires six months' notice by either party. The non-executive directors' agreements may be terminated by either party giving three months' notice.
Chairman's fees	<ul style="list-style-type: none"> → Fees are reviewed annually by the Committee taking into consideration: <ul style="list-style-type: none"> – Time commitment, demands and responsibility of the role. – External market practice. → The maximum aggregate fees for the Chairman and non-executive directors is £750,000 p.a. as set out in our Articles of Association.
Non-executive director basic fee	<ul style="list-style-type: none"> → Fees are reviewed annually by the executive directors taking into consideration: <ul style="list-style-type: none"> – Time commitment, scope and responsibility of the role. – External market practice. → The maximum aggregate fees for the non-executive directors, including the Chairman's fee, is £750,000 p.a. as set out in our Articles of Association.
Additional fees	<ul style="list-style-type: none"> → Additional fees are paid for undertaking the extra responsibilities of: <ul style="list-style-type: none"> – Board Chairman. – Senior Independent Director. – Committee Chairman.
Benefits	<ul style="list-style-type: none"> → In line with our other employees, the Chairman and non-executive directors are entitled to receive employee discount. → The Chairman is also entitled to the use of a car and driver. → No further benefits are provided to the Chairman or non-executive directors.
Recruitment	<ul style="list-style-type: none"> → The Committee takes into account a number of factors when determining an appropriate fee level for the Chairman. The CEO and executive directors determine appropriate fee levels for the non-executive directors and take into account the time commitment, role responsibility and market practice in our comparator groups when doing so. → M&S may offer benefits to the Chairman in line with our Policy.

GOVERNANCE

REMUNERATION REPORT

EXECUTIVE DIRECTORS' REMUNERATION

The Remuneration Committee annually reviews the senior remuneration framework and considers whether the existing incentive arrangements remain appropriately challenging in the context of the business strategy, current external guidelines and a range of internal factors

including the Remuneration Policy and pay arrangements throughout the rest of the organisation. The table below shows the performance measures used in current incentive schemes and how these align with the key performance indicators detailed on pages 18 to 21. As shown, there is a strong

linkage between the key performance indicators which are integrated in to the directors' incentive schemes. This ensures that directors are clearly aligned and motivated to deliver the strategy.

FIGURE 8: STRATEGIC ALIGNMENT OF PAY

See KPIs on p18-21

FINANCIAL OBJECTIVES	KPI	INCENTIVE SCHEME
Grow Group revenue	Group Revenue	PSP
Increase earnings and returns	Underlying Group Profit Before Tax (PBT) Return on Capital Employed (ROCE) Underlying Earnings per Share (EPS)	Annual Bonus Scheme PSP PSP
Strong cash generation	Free cash flow	Annual Bonus Scheme & PSP
NON-FINANCIAL OBJECTIVES	KPI	INCENTIVE SCHEME
Foster a skilled, motivated and engaged team	M&S Values	Annual Bonus Scheme
Source products with integrity	Plan A	Annual Bonus Scheme
Efficient and responsible operations	Plan A	Annual Bonus Scheme
LONG TERM STRATEGIC OBJECTIVES	KPI	INCENTIVE SCHEME
Driving growth	Sales revenue	Annual Bonus Scheme & PSP
Reaching customers	Sales growth and online visits	Annual Bonus Scheme
Improving profitability	Gross margin/operating profit	Annual Bonus Scheme & PSP

FIGURE 9: TOTAL SINGLE FIGURE REMUNERATION (audited)

Director	Year	Salary £000	Benefits ³ £000	Total Bonus ⁴ £000	Total PSP vested ⁵ £000	Pension benefits ⁶ £000	Total £000
Marc Bolland	2015/16	975	21	622	128	293	2,039
	2014/15	975	19	596	212	293	2,095
Patrick Bousquet-Chavanne	2015/16	541	38	366	50	135	1,130
	2014/15	525	36	222	60	131	974
John Dixon¹	2015/16	177	7	0	0	44	228
	2014/15	600	25	217	122	150	1,114
Steve Rowe	2015/16	549	34	230	69	137	1,019
	2014/15	525	42	653	66	131	1,417
Laura Wade-Gery²	2015/16	383	18	207	72	141	821
	2014/15	552	21	219	118	138	1,048
Helen Weir	2015/16	590	208	620	0	148	1,566
	2014/15	—	—	—	—	—	—

1. The amounts shown for 2015/16 reflect that John Dixon resigned from the Board on 16 July 2015.

2. The amounts shown for 2015/16 for Laura Wade-Gery take into account the period of maternity leave taken from 22 August 2015, calculated in line with the Company's relevant policies.

3. Benefits include the value of car allowance and intrinsic value of SAYE in addition to the taxable value of car, driver and life assurance, as applicable to each director and as described on page 59. As disclosed in last year's report, for Helen Weir, benefits also include £188,500, the differential value in contractual pension she forfeited to join M&S. This was paid in 12 equal instalments.

4. Half of any award will be deferred into Company shares for a period of three years. Further details of the 2015/16 Annual Bonus Scheme are shown on page 60.

5. The value of awards vesting in 2014/15 has been restated to reflect the actual value of dividend equivalents and share price at the time of vesting. The value of awards vesting in 2015/16 has been estimated based on the three-month average share price from 4 January 2016 – 1 April 2016 as these awards do not vest until after the end of the financial year. This value also includes the anticipated value of dividend equivalents which will be payable in July 2016. These estimated figures will be restated in next year's report.

6. Pension benefits comprise the value of cash provided in lieu of participation in an M&S pension scheme.

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

The following sections detail additional disclosure regarding each of the components set out in the previous 'single figure' table. Targets and the resultant outturn under the Annual Bonus Scheme and Performance Share Plan are measured on a 52 week basis.

SALARY (audited)

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

As reported last year, salary increases, where awarded, were between 2% and 6% in recognition of the change in pay review date, and the individual performance of each executive director. These pay increases took effect from 1 July 2015. The average pay increase for the executive directors was 3.0%, in line with the average increase awarded to the wider UK workforce over the same 18-month period.

During the year, the Committee discussed the executive directors' annual salary review for all executive directors eligible for review. Steve Rowe was not eligible for a pay

review in July 2016. The Committee was minded to award an annual increase of 2% of salary to Patrick Bousquet-Chavanne, Laura Wade-Gery and Helen Weir. This increase is in line with the average pay increase for the rest of the organisation, effective July 2016.

All executive directors have declined their respective pay increases in recognition and support of the proposed new pay

arrangements being made elsewhere in the UK organisation. Further, they have also indicated an intention to similarly decline their increases in July 2017, should the Committee deem it appropriate to award any such increase.

The table below details the executive directors' salaries as at 2 April 2016 and salaries which will take effect from 1 July 2016.

FIGURE 10: SALARIES

	Annual salary as of 2nd April 2016 £000	Annual salary as of 1st July 2016 £000	Change in salary % increase
Steve Rowe¹	557	810	45.4
Patrick Bousquet-Chavanne	546	546	0
Laura Wade-Gery	569	569	0
Helen Weir	590	590	0

1. The figure for Steve Rowe for 1 July 2016 reflects his appointment to CEO in April 2016.

BENEFITS (audited)

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

PENSION BENEFITS (audited)

Executive directors currently all receive a 25% salary supplement in lieu of participation in an M&S pension scheme. Marc Bolland received a supplement of 30% of salary.

Steve Rowe and John Dixon are deferred members of the Marks & Spencer UK Pension Scheme. Details of the pension accrued during the year ended 2 April 2016 are shown below.

FIGURE 11: PENSION BENEFITS

	Normal retirement age	Accrued pension entitlement as at year end ¹ £000	Additional value on early retirement £000	Increase in accrued value £000	Increase in accrued value (net of inflation) £000	Transfer value of total accrued pension £000
John Dixon	60	138	0	0	0	3,515
Steve Rowe	60	147	0	0	0	3,759

1. The accrued pension entitlement is the deferred pension amount that the director would receive at age 60 if they left the Company on 2 April 2016. 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.

REMUNERATION REPORT
CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

ANNUAL BONUS SCHEME

ANNUAL BONUS SCHEME 2015/16 (audited)

Annual performance for 2015/16 was measured against Underlying PBT (30% of awards) and either business unit operating profit for trading directors or free cash flow for the CEO and CFO (30% of awards).

Individual performance accounted for 40% of bonus opportunity, with objectives aligned to the relevant key strategic business priorities. Figure 12 provides an overview of the key achievements against objectives.

Steve Rowe's measures were amended to reflect his change in accountabilities in July 2015 from Food to Clothing & Home. His pro-rated performance for each business area is reflected in his final bonus payment.

Underlying PBT outturn was £684m which was above the £680m target set to trigger payments under both the corporate and individual elements of the Scheme.

The Committee reviewed all of the bonus outcomes in the context of the Company's overall performance and quality of earnings. With regard to free cash flow, the Committee judged it appropriate to adjust downwards the actual bonus outturn figure to reflect certain items such as project delays which the Committee felt should not be reflected in the bonus payment. As a result, payments under this element were 18.2% of bonus as shown in Figure 13.

The Committee also reviewed achievement to ensure that total payments were appropriate in the context of M&S's overall performance and outturn of individual objectives. Taking into account overall Company performance and balance of the team, the Committee determined that the bonus for the CEO be subject to a discretionary downward adjustment of 20% (from c. 80% to c. 64% of salary). Bonus payments awarded to the executive team are shown below. We are satisfied that the payments to the CEO, the executive directors and elsewhere in the business are fair and balanced in the context of overall Company performance.

Success towards Plan A targets and M&S Values underpinned the entire Scheme. The Committee was satisfied that each

director continued to ensure that Plan A and leadership in embedding M&S's cultural values remained a major focus of the ways of working and that the performance supported this.

⊕ See Plan A Report for more detail.

The Committee ensures that targets set are the relevant drivers of required annual performance. Some of the 2015/16 targets are too commercially sensitive to disclose as they are not disclosed elsewhere in this report. M&S remains committed to transparent reporting within the context of operating in a highly-competitive market. The Committee will continue to assess the commercial sensitivity of targets with the aim to disclose wherever possible, while ensuring that any measures set are those most appropriate to grow the business.

FIGURE 12: KEY ACHIEVEMENTS OF INDIVIDUAL OBJECTIVES 2015/16

Marc Bolland	Continued improvement in UK Food sales and embedding 'Fit To Lead The Future' through talent development and recognition									
Patrick Bousquet-Chavanne	Successful launch of 'Sparks' and inspirational marketing campaigns to drive store and online footfall									
Steve Rowe	Continued improvement in UK Food sales and driving change in Clothing & Home									
Laura Wade-Gery	Significant improvements in the stability and performance of Donington and increased customer satisfaction in stores and online									
Helen Weir	Robust control of business costs and successful delivery of Clothing & Home supply chain transformation project									

FIGURE 13: ANNUAL BONUS SCHEME 2015/16

Director		UNDERLYING GROUP PBT				CORPORATE TARGETS				INDIVIDUAL OBJECTIVES		TOTAL PAYMENT		
		Target/performance		Achievement		Target/performance		Achievement		Performance		Achievement		
		Min £m	Max £m	Actual £m	% max bonus	Min £m	Max £m	Actual £m	% max bonus	% max bonus	% max bonus	% max bonus	% salary £000	
Marc Bolland		680	735	684	5.9	489	589	546	18.2	–	–	–	16.0	63.8 622
Patrick Bousquet-Chavanne		680	735	684	5.9	–	–	–	–	–	–	–	27.6	67.0 366
Steve Rowe		680	735	684	5.9	–	–	–	–	–	–	–	10.0	41.4 230
Laura Wade-Gery¹		680	735	684	5.9	–	–	–	–	–	–	–	33.6	79.0 207
Helen Weir		680	735	684	5.9	489	589	546	18.2	–	–	–	28.4	105.0 620

1. Laura Wade-Gery's bonus payment reflects her period of maternity leave which began on 22 August 2015.

2. Targets and achievement exclude shareholder returns and pre acquisition of the subsidiary.

Performance assessment key

✗ Below Threshold

≡ Threshold > Target

✓ Target > Stretch

⊕ Above stretch

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

DEFERRED SHARE BONUS PLAN (audited)

Currently 50% of any bonus award is compulsorily deferred into nil-cost options/conditional shares. These awards vest after three years subject to continued employment as well as malus provisions. The table opposite provides details of share awards made during the year in respect of bonus payments made in 2014/15. The face value of each award reflects half of the value shown for 2014/15 bonus payments in the single figure table.

ANNUAL BONUS SCHEME FOR 2016/17

During the year, the Committee discussed the 2016/17 Scheme, considering the strategic way forward for M&S under its new leadership. As a result, some minor changes to the structure of the Scheme which are in line with the Remuneration Policy were approved. These amendments are aimed at driving the profitable growth necessary for the success of M&S, more closely aligning the bonus to arrangements in the wider workforce.

Performance will be measured against collective corporate performance as well as performance in the individual's specific business area. Individual performance will continue to be measured independently of any financial targets. However, no individual element can be earned unless a 'threshold' level of PBT has been achieved. This maintains the important principle that

FIGURE 14: DSBP AWARDS MADE IN 2015/16

	Basis of award	Face value of award ^a £000	End of deferral period
Marc Bolland	50% of bonus	298	19/06/2018
Patrick Bousquet-Chavanne	50% of bonus	111	19/06/2018
Steve Rowe	50% of bonus	327	19/06/2018
Laura Wade-Gery	50% of bonus	109	19/06/2018
Helen Weir	—	—	—

1. Helen Weir joined M&S during the 2015/16 financial year.
2. The face value of awards is calculated as the number of nil-cost options/conditional shares awarded multiplied by the average mid-market share price on the five dealing days prior to the date of grant. For this year, the share price was calculated as being £5.483, being the average share price between 12 June 2015 and 18 June 2015. Further details of these awards are shown in the table on pages 65-66.

below a defined level of financial performance, no bonus will be earned.

As shown below, 70% of awards will be measured against Underlying Group PBT under the corporate element. The remainder of the bonus will be measured against individual objectives. These will be structured so that 10% will be assessed against the financial performance in local business areas, 10% against a customer focused measure and 10% against the success of implementing the relevant business change central to success in 2016/17. Local measures will be those quantifiable deliverables most relevant to the renewed strategy and will focus on improving Clothing & Home sales and controlling our costs, providing value for money and optimum rates of return on expenditure for our shareholders.

Laura Wade-Gery's bonus objectives will be agreed with her upon her return from maternity leave but will be structured similarly, following the same principles.

The targets under these measures are deemed by the Board to be too commercially sensitive to disclose at this time, but where possible, will be disclosed in next year's report.

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

FIGURE 15: ANNUAL BONUS SCHEME TARGETS 2016/17

Director	CORPORATE TARGETS				INDIVIDUAL OBJECTIVES	
	GROUP PBT	LOCAL FINANCIAL			INDIVIDUAL	Measure
		% bonus	% bonus	% bonus		
Steve Rowe	70%	10%	10%	10%	10%	Clothing & Home UK LFL sales Organisational development
Patrick Bousquet-Chavanne	70%	10%	10%	10%	10%	Business Unit performance Organisational development
Laura Wade-Gery	70%	10%	10%	10%	10%	Organisational development
Helen Weir	70%	10%	10%	10%	10%	Operating costs Organisational development

REMUNERATION REPORT
CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

PERFORMANCE SHARE PLAN (PSP)

The Committee believes that long-term share awards reward executives for the delivery of long-term business goals and make annual awards under the Performance Share Plan (PSP) to incentivise executive directors and senior managers.

At the 2015 AGM, shareholders were asked to approve the introduction of a replacement PSP as the previously approved plan had expired. The terms of this Plan were broadly the same as those of the previous 2005 Plan. With nearly 98% of shareholders approving the 2015 Plan, awards of 250% of salary were awarded to each executive director in July 2015.

PSP AWARDS MADE IN 2015/16 (audited)

As we disclosed last year, minor amendments to the performance conditions were made for 2015/16 awards. Awards will vest subject to the achievement of stretching targets in those measures determined to appropriately reflect the key drivers of shareholder value and our strategic business priorities. Targets were set to reward the delivery of consistent, ambitious long-term performance. The Committee regularly reviews estimated performance throughout the vesting period.

As shown in Figure 18, performance for these awards is measured against EPS, ROCE, sales growth (in M&S.com and International), cumulative free cash flow and UK Clothing & Home gross margin. Each performance condition is measured independently over the three-year period to the end of the 2017/18 financial year. Awards will vest on 24 July 2018 to the extent that the performance conditions are met.

FIGURE 16: PSP AWARDS MADE IN 2015/16

	Basis of award	Face value of award ¹ £000	End of performance period ²
Marc Bolland	250% of salary	2,438	31/03/2018
Patrick Bousquet-Chavanne	250% of salary	1,365	31/03/2018
Steve Rowe	250% of salary	1,391	31/03/2018
Laura Wade-Gery	250% of salary	1,421	31/03/2018
Helen Weir	250% of salary	1,475	31/03/2018

1. The face value of awards is calculated as the number of nil-cost options/conditional shares awarded multiplied by the average mid-market share price on the five dealing days prior to the date of grant. For this year, the share price was calculated as being £5.334, being the average share price between 17 July 2015 and 23 July 2015. Further details of these awards are shown in the table on pages 65–66.

2. For threshold performance, 20% of the shares awarded will vest.

FIGURE 17: PSP AWARDS VESTING IN 2015/16 (audited)

For directors in receipt of PSP awards granted in 2013, the awards will vest on 24 June 2016 based on three-year performance over the period to

2 April 2016. Performance has been assessed and it has been determined that 4.8% of the award will vest.

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

	Performance target					Total vesting ⁶	
	Revenue (£ 2015/16)						
	EPS Growth ² 50% of award	ROCE (%) 20% of award	UK ³ 10% of award	Multi-channel ⁴ 10% of award	International ⁵ 10% of award		
Threshold performance targets¹	5.0%	15.0%	£8,900m	£900m	£1,400m		
Maximum performance targets¹	12.0%	18.5%	£9,600m	£1,100m	£1,800m		
Actual performance achieved	2.9%	14.7%	£8,386m	£971m	£1,034m		
Percentage of maximum achieved	0.0%	0.0%	0.0%	4.8%	0.0%	4.8%	

1. 20% of an award vests for threshold performance with full vesting for achieving or exceeding maximum performance. Vesting is a straight line between these two points.

2. Based on base EPS in 2012/13 of 31.9p (restated as a result of IAS19) and final EPS of 34.8p in 2015/16.

3. Excluding Multi-channel.

4. Net of VAT/gross of returns.

5. Excluding Multi-channel/including Republic of Ireland.

6. Details of the number of shares awarded to each director in 2013 are shown in the table on pages 65–66. The estimated value of these awards, including the dividend equivalents, are set out in the single figure table on page 58.

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

PSP AWARDS TO BE MADE IN 2016/17

The Committee believes in the importance of strategically-aligned incentives so that executive directors are motivated to deliver the commercial success of M&S. The Committee's aim is to ensure realistic and sustainable targets to support the delivery of such success. The Committee therefore intends to make awards under the PSP in November 2016 shortly after the announcement of the Interim results,

having allowed Steve Rowe and his leadership team sufficient time to develop M&S's long-term business plan. This will ensure that PSP targets are rigorously reviewed in the context of this new leadership, rewarding stretching yet achievable performance designed to deliver increased shareholder value. Such awards will vest three years after the date of grant.

M&S remains committed to clear and transparent communication and intends to report back to shareholders by November 2016 with more detail on these awards. Awards will remain in line with the current Remuneration Policy, first approved by shareholders in 2014.

FIGURE 18: PERFORMANCE CONDITIONS FOR OUTSTANDING PSP AWARDS (audited)

The details of outstanding PSP awards are set out in the table on pages 65 and 66. These awards vest subject to the extent that the following three-year performance conditions are met.

	Annualised EPS growth (%)	ROCE (%)	Revenue (£) ⁵		
			UK ²	Multi-channel ³	International ⁴
2014/15 Award	50% of award	20% of award	10% of award	10% of award	10% of award
Threshold performance¹	5.0%	15.0%	£8,900m	£1,100m	£1,400m
Maximum performance¹	12.0%	16.5%	£9,600m	£1,300m	£1,800m

1. Vesting is a straight line between 'threshold' at which 20% vests and 'maximum' performance at which 100% vests.

2. Excluding Multi-channel.

3. Net of VAT/gross of returns.

4. Excluding Multi-channel/including Republic of Ireland.

5. Measured at the end of 2016/17.

	Financial strategic scorecard					
	Annualised EPS growth (%)	ROCE (%)	International sales growth ² (%)	M&S.com sales growth ³ (%)	UK Clothing & Home gross margin ⁴	Cumulative free cash flow ⁵
2015/16 Award	50% of award	20% of award	7.5% of award	7.5% of award	7.5% of award	7.5% of award
Threshold performance¹	5.0%	15.0%	5.0%	11.0%	—	£1,350m
Maximum performance¹	12.0%	16.5%	15.0%	18.0%	—	£1,650m

1. Vesting is a straight line between 'threshold' at which 20% vests and 'maximum' performance at which 100% vests.

2. Excluding M&S.com/including Republic of Ireland.

3. Net of VAT and post store returns.

4. Targets relating to UK Clothing & Home gross margin are deemed by the Board to be too commercially sensitive to disclose, but will be retrospectively disclosed in the report relating to the end of the relevant three-year performance period.

5. Pre dividends and returns

ALL-EMPLOYEE SHARE SCHEMES (audited)

Executive directors may participate in both ShareSave, the Company's Save As You Earn scheme, and ShareBuy, the Company's Share Incentive Plan on the same basis as all other eligible employees. Further details of the Schemes are set out in note 13 to the financial statements on pages 106 and 107.

REMUNERATION REPORT
CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 19: DIRECTORS' SHAREHOLDINGS (audited)

The table below sets out the total number of shares held at 2 April 2016 or date of retirement by each executive director serving on the Board during the year.

There have been no changes in the current directors' interests in shares or options granted by the Company and its subsidiaries between the end of the

financial year and 24 May 2016. No director had an interest in any of the Company's subsidiaries at the statutory end of the year.

	Unvested				
	With performance conditions		Without performance conditions		
	Shares owned outright ²	Performance Share Plan	Deferred Share Bonus Plan	Restricted Share Plan	Vested but unexercised ³
Marc Bolland	683,929	1,572,534	149,153	0	0
Patrick Bousquet-Chavanne	99,070	772,669	46,448	0	0
John Dixon¹	361,076	686,498	82,277	0	0
Steve Rowe	188,535	861,512	110,013	0	0
Laura Wade-Gery	172,955	898,029	73,622	0	56,995
Helen Weir	4,500	276,527	0	0	0

1. Shareholding at 16 July 2015, the date John Dixon resigned from the Board. Please refer to footnote 3 on page 65 for further information on John Dixon's shareholdings.

2. Includes shares held by connected persons.

3. Comprises all unexercised awards under these plans.

FIGURE 20: SHAREHOLDING REQUIREMENTS (audited)

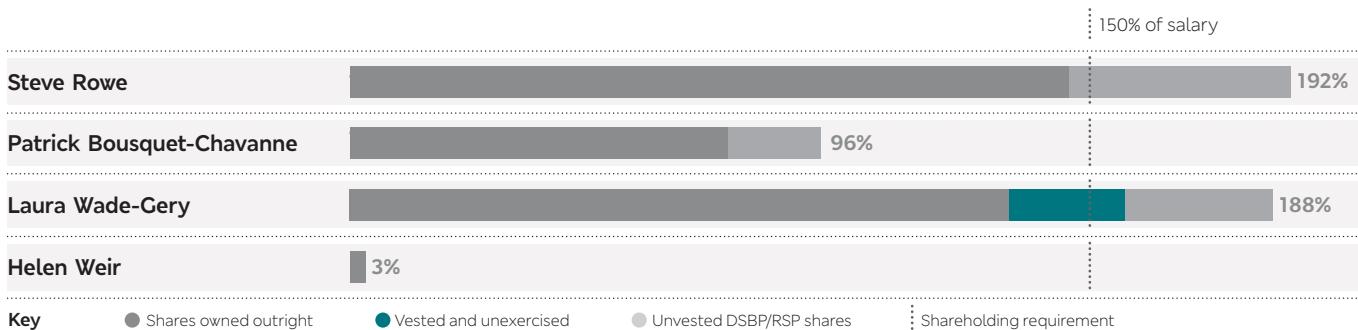
All executive directors are required to hold shares equivalent in value to a minimum percentage of their salary within a five-year period from their appointment date. For the CEO this requirement is 250% of salary and for other Board directors the requirement is 150% of salary. Similar guidelines of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

The chart below shows the extent to which each director has met their target shareholding as at 2 April 2016.

For the purposes of the requirements, the net number of unvested share awards not subject to performance conditions is included and is reflected in the chart below. The Committee is satisfied that the current level of shareholding requirement provides

an appropriate level of investment in M&S for each director. The Committee will continue to keep this issue under review and will amend accordingly if necessary.

Following Steve Rowe's appointment to CEO on 2 April 2016, his shareholding requirement has been increased to 250% of his new salary which will be reported in next year's report.



SHARE CAPITAL & DILUTION

Dilution of share capital by employee share plans

Awards granted under the Company's Save As You Earn scheme and the Executive Share Option scheme are met by the issue of new shares when the options are exercised.

All other share plans are met by market purchase shares. The Company monitors the number of shares issued under these schemes and their impact on dilution limits.

The Company's usage of shares compared to the dilution limits set by The Investment Association in respect of all share plans (10% in any rolling ten-year period) and executive share plans (5% in any rolling ten-year period) as at 2 April 2016 was as follows:

FIGURE 21: ALL SHARE PLANS

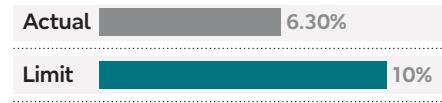
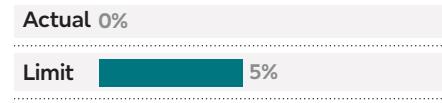


FIGURE 22: EXECUTIVE SHARE PLANS



EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

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

	Date of grant	Maximum receivable at 29 March 2015 (or date of appointment)	Awarded during the year	Exercised during the year	Lapsed during the year	Maximum receivable at 2 April 2016 (or date of retirement)	Option price (p)	Share price on date of grant (p)	Share price on date of exercise (p)	Exercise period/ vesting date
Marc Bolland										
Performance Share Plan ¹	18/06/12	749,769	–	35,239	714,530	–	0.0	325.1	543.5	–
	24/06/13	557,780	–	–	–	557,780	0.0	437.0	–	24/06/16 – 23/06/23
	23/06/14	557,780	–	–	–	557,780	0.0	437.0	–	23/06/17 – 22/06/24
	24/07/15	–	456,974	–	–	456,974	0.0	533.4	–	24/07/18 – 23/07/25
Deferred Share Bonus Plan	18/06/12	101,968	–	101,968	–	–	0.0	325.1	543.5	–
	24/06/13	94,822	–	–	–	94,822	0.0	437.0	–	24/06/16 – 23/06/23
	19/06/15	–	54,331	–	–	54,331	0.0	548.3	–	19/06/18 – 18/06/25
SAYE	21/11/13	2,222	–	–	–	2,222	405.0	505.6	–	01/01/17 – 30/06/17
Total		2,064,341	511,305	137,207	714,530	1,723,909				
Patrick Bousquet-Chavanne²										
Performance Share Plan ¹	05/12/12	230,735	–	10,844	219,891	–	389.4	503.0	–	–
	24/06/13	216,421	–	–	–	216,421	437.0	–	–	24/06/16
	23/06/14	300,343	–	–	–	300,343	–	437.0	–	24/06/17
	24/07/15	–	255,905	–	–	255,905	533.4	–	–	24/07/18
Deferred Share Bonus Plan	24/06/13	26,195	–	–	–	26,195	437.0	–	–	24/06/16
	19/06/15	–	20,253	–	–	20,253	548.3	–	–	19/06/18
Restricted Share Plan	13/09/12	174,258	–	174,258	–	–	368.0	505.0	–	–
SAYE	21/11/13	2,222	–	–	–	2,222	405.0	505.6	–	01/01/17 – 30/06/17
Total		950,174	276,158	185,102	219,891	821,339				
John Dixon³										
Performance Share Plan ¹	18/06/12	432,174	–	20,312	411,862	–	0.0	325.1	536.0	–
	24/06/13	343,249	–	–	343,249	–	0.0	437.0	–	–
	23/06/14	343,249	–	–	343,249	–	0.0	437.0	–	–
Deferred Share Bonus Plan	18/06/12	62,233	–	62,233	–	–	0.0	325.1	543.5	–
	24/06/13	62,471	–	–	62,471	–	0.0	437.0	–	–
	19/06/15	–	19,806	–	19,806	–	0.0	548.3	–	–
SAYE	21/11/13	2,222	–	–	2,222	–	405.0	505.6	–	–
Total		1,245,598	19,806	82,545	1,182,859	–				

1. The number of options/conditional shares shown under the Performance Share Plan is the maximum (100%) number that could be receivable by the executive director if the performance conditions are fully met. The 2012 award vested in June 2015 at 4.7% (December 2015 for Patrick Bousquet-Chavanne). 4.8% of the 2013 award will vest in June 2016, as set out on page 62.

2. Patrick Bousquet-Chavanne's awards are structured as conditional shares. His RSP award was made prior to his appointment to executive director.

3. John Dixon resigned from the Board on 16 July 2015 and left the Company on 16 January 2016. Details of his leaving arrangements are set out on page 68. All awards made in 2013, 2014 and 2015 and his SAYE award lapsed on leaving the Company. For transparency, these are shown in the 'lapsed during the year' column.

REMUNERATION REPORT
CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

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

	Date of grant	Maximum receivable at 29 March 2015 (or date of appointment)	Awarded during the year	Exercised during the year	Lapsed during the year	Maximum receivable at 2 April 2016 (or date of retirement)	Option price (p)	Share price on date of grant (p)	Share price on date of exercise (p)	Exercise period/ vesting date
Steve Rowe										
Performance Share Plan ¹	18/06/12	232,912	–	10,946	221,966	–	0.0	325.1	543.5	–
	24/06/13	300,343	–	–	–	300,343	0.0	437.0	–	24/06/16 – 23/06/23
	23/06/14	300,343	–	–	–	300,343	0.0	437.0	–	23/06/17 – 22/06/24
	24/07/15	–	260,826	–	–	260,826	0.0	533.4	–	24/07/18 – 23/07/25
Deferred Share Bonus Plan	18/06/12	32,753	–	32,753	–	–	0.0	325.1	543.5	–
	24/06/13	50,457	–	–	–	50,457	0.0	437.0	–	24/06/16 – 23/06/23
	19/06/15	–	59,556	–	–	59,556	0.0	548.3	–	19/06/18 – 18/06/25
SAYE	21/11/13	2,222	–	–	–	2,222	405.0	505.6	–	01/01/17 – 30/06/17
Total		919,030	320,382	43,699	221,966	973,747				
Laura Wade-Cery										
Performance Share Plan ¹	18/06/12	416,025	–	–	396,472	19,553	0.0	325.1	–	18/06/15 – 17/06/22
	24/06/13	315,789	–	–	–	315,789	0.0	437.0	–	24/06/16 – 23/06/23
	23/06/14	315,789	–	–	–	315,789	0.0	437.0	–	23/06/17 – 22/06/24
	24/07/15	–	266,451	–	–	266,451	0.0	533.4	–	24/07/18 – 23/07/25
Deferred Share Bonus Plan	18/06/12	37,442	–	–	–	37,442	0.0	325.1	–	18/06/15 – 17/06/22
	24/06/13	53,684	–	–	–	53,684	0.0	437.0	–	24/06/16 – 23/06/23
	19/06/15	–	19,938	–	–	19,938	0.0	548.3	–	19/06/18 – 18/06/25
Total		1,138,729	286,389	–	396,472	1,028,646				
Helen Weir										
Performance Share Plan ¹	24/07/15	–	276,527	–	–	276,527	0.0	533.4	–	24/07/18 – 23/07/25
SAYE	19/11/15	–	2,083	–	–	2,083	432.0	539.2	–	01/01/19 – 30/06/19
Total		– 278,610	–	–	–	278,610				

1. The number of options/conditional shares shown under the Performance Share Plan is the maximum (100%) number that could be receivable by the executive director if the performance conditions are fully met. The 2012 award vested in June 2015 at 4.7% (December 2015 for Patrick Bousquet-Chavanne). 4.8% of the 2013 award will vest in June 2016, as set out on page 62.

2. Patrick Bousquet-Chavanne's awards are structured as conditional shares. His RSP award was made prior to his appointment to executive director.

3. John Dixon resigned from the Board on 16 July 2015 and left the Company on 16 January 2016. Details of his leaving arrangements are set out on page 68. All awards made in 2013, 2014 and 2015 and his SAYE award lapsed on leaving the Company. For transparency, these are shown in the 'lapsed during the year' column.

The aggregate gains of directors arising in the year from the exercise of options granted under the PSP, DSBP, RSP and SAYE totalled £2,364,978.

The market price of the shares at the end of the financial year was 407.3p; the highest and lowest share price during the financial year were 596.5p and 392.5p respectively.

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 24: PERFORMANCE AND CEO REMUNERATION COMPARISON

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



	CEO ¹	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
CEO single figure of remuneration (£'000)	Marc Bolland	–	5,998	3,324	2,142	1,568	2,095	2,039
	Stuart Rose	4,294	269	–	–	–	–	–
Annual bonus payment (% of maximum)	Marc Bolland	–	45.80%	34.00%	42.50%	0.00%	30.55%	31.90%
	Stuart Rose	97.00%	57.40%	–	–	–	–	–
PSP vesting (% of maximum)	Marc Bolland	–	–	31.96%	0.00%	7.60%	4.70%	4.80%
	Stuart Rose	0.00%	0.00%	–	–	–	–	–

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

FIGURE 25: PERCENTAGE CHANGE IN CEO'S REMUNERATION

The table opposite sets out the change in the CEO's remuneration (i.e. salary, taxable benefits and annual bonus) compared with the change in our UK-based employees. This group has been chosen as the majority of our workforce is UK-based. As can be seen, average FTE salaries for UK employees increased by 3.9%, in excess of that provided to the CEO.

	% change 2014/15 – 2015/16		
	Base salary	Benefits	Annual bonus
CEO	0.0%	0.0%	4.4%
UK employees (average per FTE)	3.9%	0.6%	37.3%

FIGURE 26: RELATIVE IMPORTANCE OF SPEND ON PAY

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

Total employee pay is the total pay for all Group employees. Underlying Group Profit Before Tax has been used as a comparison as this is the key financial metric which the Board consider when assessing Company performance.

	2014/15 £m	2015/16 £m	% change
Total employee pay	1,406.2	1486.7	5.7
Total returns to shareholders ¹	280.7	451.7	60.9
Underlying Group Profit Before Tax	661.2	684.1	3.5

1. Total returns to shareholders for 2015/16 includes distribution to shareholders via share buyback.

REMUNERATION REPORT
CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

FIGURE 27: SERVICE AGREEMENTS

In line with our Policy, directors have rolling contracts which may be terminated by the Company giving 12 months' notice or the director giving six months' notice.

Steve Rowe's service agreement was updated on his appointment to CEO on 2 April 2016.

	Date of appointment	Notice period/unexpired term
Steve Rowe	01/10/2012	12 months/6 months
Patrick Bousquet-Chavanne	10/07/2013	12 months/6 months
Laura Wade-Gery	04/07/2011	12 months/6 months
Helen Weir	01/04/2015	12 months/6 months

EXECUTIVE CHANGES TO THE BOARD DURING 2015/16

Directors appointed to the Board

Helen Weir joined the Board on 1 April 2015 as Chief Finance Officer as reported last year. Full details of her pay arrangements on joining were disclosed in our 2014/15 report.

Payments for the loss of office (audited)

John Dixon Executive Director, General Merchandise resigned from the Board on 16 July 2015 and left the Company after a period of garden leave on 16 January 2016. In line with his contractual arrangements, John received a payment of £49,431 in respect of accrued but untaken holiday as per the Company's standard holiday policy for leavers. Any share awards which had not vested prior to the date he left the business lapsed at this time.

Payments to past directors (audited)

Steven Sharp retired from the Board on 9 July 2013 and had two outstanding awards under the Performance Share Plan. In accordance with the rules of the Performance Share Plan, 4.7% of his 2012 award (24,396 shares) vested in May 2015, equating to £153,302, including dividend equivalents. Steven has no further outstanding awards.

Changes to the Board in 2016/17

Marc Bolland, CEO retired from the Board on 2 April 2016. In line with his contractual arrangements, Marc will receive salary, benefits and pension benefits until the end of his notice period on 7 January 2017. Marc will not be eligible to participate in either the Annual Bonus Scheme or Performance Share Plan for 2016/17. Per the approved Remuneration Policy,

any unvested nil-cost options awarded to Marc Bolland under the Deferred Share Bonus Plan will vest in full on leaving and may be exercised in accordance with the Plan rules. As per the Policy, any unvested nil-cost options awarded under the Performance Share Plan will be time pro-rated and will vest on the normal vesting date, to the extent that performance conditions are met. They may then be exercised in accordance with the Plan rules.

Directors changing roles within the Board

Steve Rowe became Chief Executive Officer on 2 April 2016, upon Marc Bolland's retirement from the Board. From this date, Steve's salary increased to £810,000 with all other terms of his existing service agreement remaining unchanged.

FIGURE 28: EXTERNAL APPOINTMENTS

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

The table opposite sets out the details for these fees earned for the period 29 March 2015 to 2 April 2016.

Director	Company	Fee 000
Marc Bolland	The Coca-Cola Company	\$250
Patrick Bousquet-Chavanne	Brown-Forman	\$267
Laura Wade-Gery	British Land Company	£44
Helen Weir	SABMiller	£117
	Rugby Football Union	£25

NON-EXECUTIVE DIRECTORS' REMUNERATION

FIGURE 29: NON-EXECUTIVE DIRECTORS' TOTAL SINGLE FIGURE REMUNERATION (audited)

Director	Year	Basic fees £000	Additional fees £000	Benefits £000	Total £000
Robert Swannell	2015/16	70	380	20	470
	2014/15	70	380	18	468
Vindi Banga	2015/16	70	30	0	100
	2014/15	70	12	0	82
Alison Brittain	2015/16	70	0	0	70
	2014/15	70	0	0	70
Miranda Curtis	2015/16	70	0	0	70
	2014/15	70	0	0	70
Andrew Fisher¹	2015/16	23	0	0	23
	2014/15	—	—	—	—
Martha Lane Fox	2015/16	70	0	0	70
	2014/15	70	0	0	70
Andy Halford	2015/16	70	15	0	85
	2014/15	70	15	0	85
Richard Solomons²	2015/16	68	0	0	68
	2014/15	—	—	—	—

1. The amounts shown for 2015/16 reflect that Andrew Fisher joined the Board on 1 December 2015.

2. The amounts shown for 2015/16 reflect that Richard Solomons joined the Board on 13 April 2015.

FIGURE 30: NON-EXECUTIVE DIRECTORS' SHAREHOLDINGS (audited)

The non-executive directors are not permitted to participate in any of the Company's incentive arrangements. The non-executive directors are required to build and maintain a shareholding of at least 2,000 shares in the Company within two months of their appointment to the Board.

The table opposite details the shareholding of the non-executive directors who served on the Board during the year as at 2 April 2016 (or upon their date of retiring from the Board).

There have been no changes in the current non-executive directors' interests in shares in the Company and its subsidiaries between the end of the financial year and 24 May 2016.

Director	Number of shares held ¹
Robert Swannell	143,000
Vindi Banga	93,700
Alison Brittain	5,096
Miranda Curtis	5,500
Andrew Fisher	3,536
Martha Lane Fox	20,100
Andy Halford	21,000
Richard Solomons	5,000

1. Includes shares held by connected persons.

FIGURE 31: NON-EXECUTIVE DIRECTORS' AGREEMENTS FOR SERVICE

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

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

Director	Date of appointment	Notice period/unexpired term
Robert Swannell	23/08/2010	6 months/6 months
Vindi Banga	01/09/2011	3 months/3 months
Alison Brittain	01/01/2014	3 months/3 months
Miranda Curtis	01/02/2012	3 months/3 months
Andrew Fisher	01/12/2015	3 months/3 months
Andy Halford	01/01/2013	3 months/3 months
Richard Solomons	13/04/2015	3 months/3 months

REMUNERATION REPORT
CONTINUED

NON-EXECUTIVE DIRECTORS' REMUNERATION CONTINUED

NON-EXECUTIVE DIRECTORS' CHANGES TO THE BOARD DURING 2014/15

Directors appointed to the Board

Andrew Fisher joined the Board on 1 December 2015 as a non-executive director. Andrew is a member of the Nomination Committee and the Audit Committee. In accordance with the Policy, Andrew receives an annual fee of £70,000.

Richard Solomons joined the Board on 13 April 2015 as a non-executive director. Richard is a member of the Nomination Committee and the Remuneration Committee. In accordance with the Policy, Richard receives an annual fee of £70,000.

Directors retiring from the Board

Martha Lane Fox retired from the Board on 2 April 2016. There were no payments for loss of office payable to Martha.

REMUNERATION COMMITTEE

REMUNERATION COMMITTEE REMIT

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

KEY RESPONSIBILITIES

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

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

REMUNERATION COMMITTEE
AGENDA FOR 2015/16

Regular items

- Approval of the Directors' Remuneration Report for 2014/15 and review of the AGM voting outcome for the Report.
- Annual review of all executive directors' and senior managers' base salaries and benefits in line with Company policies and approval of any salary increase.
- Review of achievement of Annual Bonus Scheme profit against target.
- Review of achievement of executive directors' individual objectives for 2015/16.
- Review of the structural design, measures and approach to targets for the 2015/16 Annual Bonus Scheme.
- Review and approval of all awards made under the PSP taking into account the total value of all awards made under this plan.
- Half year and year end review of all share plan performance against targets.
- Approval of the vesting level of the 2013/14 PSP awards.
- Consideration of the approach to be taken for the 2016/17 PSP awards.
- Clear articulation of the Committee's reasoning and consideration for vesting and payment levels to executive directors.
- Significant consideration of institutional investors' current guidelines on executive compensation.
- Consideration of remuneration arrangements for the wider workforce.
- Review of, and agreement to, remuneration packages for new senior managers.

- Assessment of the external environment surrounding the Company's current remuneration arrangements.

- Consideration of external market developments and best practice in remuneration.

- Review of Committee performance in 2015/16.

- Review of Committee Terms of Reference.

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

REMUNERATION COMMITTEE
ACTION PLAN 2015/16

- Review the executive remuneration framework to ensure strategic alignment with the revised financial and strategic plan.
- Review and update the Remuneration Policy prior to seeking formal shareholder approval in July 2017.
- Review senior management remuneration regularly to provide greater support to Board discussions on talent and development.
- Ensure formal annual review of wider workforce reward framework.
- Review the effectiveness and transparency of remuneration reporting.

COMMITTEE ADVISORS

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

REMUNERATION COMMITTEE CONTINUED

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

PwC were appointed by the Committee as its independent advisors in 2014 following a rigorous and competitive tender process. PwC provides independent commentary on matters under consideration by the Committee and updates on legislative requirements, best practice and market practice. PwC's fees are typically charged on an hourly basis with costs for work agreed in advance. During the year, PwC charged £94,366 for Remuneration Committee matters. PwC has provided tax, consultancy and risk consulting services to the Group in the financial year.

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

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

REMUNERATION COMMITTEE STAKEHOLDER ENGAGEMENT

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

SHAREHOLDER CONSULTATION

The Committee is committed to a continuous, open and transparent dialogue with shareholders on the issue of executive remuneration. The Committee was represented at the Company's annual Governance Event, held in June 2015, at which major institutional investors and representative bodies were provided with the opportunity to review and debate remuneration with the Committee Chairman Vindi Banga.

SHAREHOLDER SUPPORT FOR THE 2014/15 DIRECTORS' REMUNERATION REPORT

At the Annual General Meeting on 7 July 2015, 99.07% of shareholders voted in favour of approving the Directors' Remuneration Report for 2014/15. The Committee believes this illustrates the strong level of shareholder support for the senior remuneration framework.

The table below shows full details of the voting outcomes for the 2014/15 Directors' Remuneration Report and Remuneration Policy.

FIGURE 32: VOTING OUTCOMES FOR 2014/15 REMUNERATION REPORT

	Votes for	% Votes for	Votes against	% Votes against	Votes withheld
Remuneration Report	999,791,106	99.07	9,400,794	0.93	14,741,053
Replacement PSP	993,189,266	97.97	20,572,593	2.03	10,042,615
Replacement ESOS	978,771,734	95.94	41,398,007	4.06	3,810,085

FIGURE 33: VOTING OUTCOMES FOR REMUNERATION POLICY (2013/14)

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

APPROVED BY THE BOARD

Vindi Banga Chairman of the Remuneration Committee
London, 24 May 2016

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

GOVERNANCE

PENSIONS GOVERNANCE

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

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

The pension scheme, the assets of which are held under trust separately from those of the Group, is managed by the Board of the Pension Trust ('Trustee Board'). The Trustee Board comprises four Company nominated directors, including the Chairman, Graham Oakley, three member nominated directors and two independent directors. All directors are appointed for a five year term and may stand for additional terms.

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

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

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

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

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

The scheme is a signatory to the UN Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code. It has partnered with a specialist engagement service, Hermes Equity Ownership Services (EOS), to exercise its global equity voting rights in accordance with a detailed Trustee Board policy, which addresses a range of governance, social and environmental issues. The engagement of EOS enhances the Trustee Board's stewardship and governance oversight of investee companies by engaging with companies on a global basis. The results of these voting and engagement activities are published quarterly on the M&S Pension Scheme's website.

GOVERNANCE

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DIRECTORS' REPORT

Marks and Spencer Group plc (the 'Company') is the holding company of the Marks & Spencer Group of companies (the 'Group'). With our rich heritage, M&S is one of the most recognisable brands in the UK retail sector and is regularly voted as one of its most trusted. Our business is driven by a desire to inspire and innovate; to act with integrity and to stay in touch with our customers, shareholders and employees alike. These are our corporate values and they underpin everything we do. They are what make the M&S difference across the 59 territories in which we operate.

The Directors' Report (also the Management Report) for the year ended 2 April 2016 comprises pages 30 to 77 and page 127 to 128 of this report, together with the sections of the Annual Report incorporated by reference. As permitted by legislation, some of the matters normally included in the Directors' Report have instead been included in the Strategic Report on pages 2 to 29, as the Board considers them to be of strategic importance. Specifically, these are:

- Future business developments (throughout the Strategic Report).
- Research and development p14.
- Risk management on p27-29.

Details of branches operated by the Company can be found on page 17 of the Strategic Report.

Information relating to financial instruments are on pages 112 to 117. Both the Strategic Report and the Directors' Report have been drawn up and presented in accordance with and in reliance upon applicable English company law, and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law. For information on our approach to social, environmental and ethical matters please refer to our Plan A Report, available to view online at marksandspencer.com/plana2016.

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

INFORMATION TO BE DISCLOSED UNDER LR 9.8.4R

Listing Rule	Detail	Page reference
9.8.4R (1) (2) (5-14) (A) (B)	Not applicable	N/A
9.8.4R (4)	Long-term incentive schemes	54 and 62-63

BOARD OF DIRECTORS

The membership of the Board and biographical details of the directors are given on pages 32 and 33 and are incorporated into this report by reference. Changes to the directors during the year and up to the date of this report, are set out below. Details of directors' beneficial and non-beneficial interests in the shares of the Company are shown on pages 64 and 69. Options granted under the Save As You Earn (SAYE) Share Option and Executive Share Option Schemes are shown on pages 65 and 66. Further information regarding employee share option schemes is given in note 13 to the financial statements.

Effective date of appointment/
resignation

Name	Role	
Helen Weir	Chief Finance Officer	Appointed 1 April 2015
Richard Solomons	Non-executive director	Appointed 13 April 2015
John Dixon	Executive Director, General Merchandise	Resigned 16 July 2015
Andrew Fisher	Non-executive Director	Appointed 1 December 2015
Martha Lane Fox	Non-executive Director	Retired 2 April 2016
Marc Bolland	Chief Executive Officer	Retired 2 April 2016
Steve Rowe	Chief Executive Officer	Appointed 2 April 2016

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.

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 should retire as directors by rotation. All those directors who have been in office at the time of the two previous AGMs and who did not retire at either of them must retire 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 2014, all directors will stand for annual election at the 2016 AGM.

DIRECTORS' CONFLICTS OF INTEREST

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

DIRECTORS' INDEMNITIES

The Company maintains directors' and officers' liability insurance which gives appropriate cover for 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 2 April 2016 and remain in force, in relation to certain losses and liabilities which the directors (or Group Secretary) may incur to third

OTHER DISCLOSURES
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parties in the course of acting as directors or Group Secretary or employees of the Company or of any associated company.

Qualifying pension scheme indemnity provisions (as defined by section 235 of the Companies Act 2006) were in force during the course of the financial year ended 2 April 2016 for the benefit of the Trustees of the Marks and Spencer pension scheme, both in the UK and the Republic of Ireland.

PROFIT AND DIVIDENDS

The profit for the financial year, after taxation, amounts to £404.4m (last year £481.7m). The directors have declared dividends as follows:

Ordinary shares	£m
Paid interim dividend of 6.8p per share (last year 6.4p per share)	£110.9m
Proposed final dividend of 11.9p per share (last year 11.6p per share)	£192.6m
Total ordinary dividend of 18.7p per share (last year 18.0p per share)	£303.5m
Special dividend	£75m

The final ordinary dividend and the special dividend will be paid on 15 July 2016 to shareholders whose names are on the Register of Members at the close of business on 3rd June 2016.

SHARE CAPITAL

The Company's issued ordinary share capital as at 2 April 2016 comprised a single class of ordinary share. Each share carries the right to one vote at general meetings of the Company.

During the period, 6,797,209 ordinary shares in the Company were issued as follows:

- 62,230 shares under the terms of the 2002 Executive Share Option Scheme at a price of 352p.
- 6,645,922 shares under the terms of the United Kingdom Employees' Save As You Earn Share Option Scheme at prices between 258p and 405p.
- 89,057 shares under the terms of the ROI Employees' Save As You Earn Share Option Scheme at prices between 258p and 405p.

Details of movements in the Company's issued share capital can be found on page 119 in note 24 to the financial statements.

RESTRICTIONS ON TRANSFER OF SECURITIES

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

VARIATION OF RIGHTS

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

Rights and obligations attaching to shares

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

POWERS FOR THE COMPANY ISSUING OR BUYING BACK ITS OWN SHARES

The Company was authorised by shareholders, at the 2015 AGM, to purchase in the market up to 10% of the Company's issued share capital, as permitted under the Company's Articles. Under this authority,

the Company purchased 31,647,148 ordinary Marks & Spencer shares between 8 July 2015 and 24 February 2016, at a nominal value of £7,911,787.00 and a net cost of £149,894,496.11. The 31,647,148 shares purchased represent 1.95% of the issued share capital as at 24 February 2016. All shares purchased were cancelled, and not held in treasury.

This standard authority is renewable annually; the directors will seek to renew this authority at the 2016 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 2015 AGM to allot relevant securities up to a nominal amount of £137,372,598. This authority will apply until the conclusion of the 2016 AGM. At this year's AGM, shareholders will be asked to grant an authority to allot relevant securities (i) up to a nominal amount of £135,313,863 and (ii) comprising equity securities up to a nominal amount of £270,627,726 (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 2017 or, if earlier, on 1 October 2017.

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 £20,297,079. 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 £164 million ordinary shares and sets the minimum and maximum prices which will be paid.

INTERESTS IN VOTING RIGHTS

Information provided to the Company pursuant to the Financial Conduct Authority's (FCA) Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 2 April 2016, the following information has been received, in accordance with DTR5, from holders of notifiable interests in the Company's issued share capital.

Notifiable interests	Ordinary shares	% of capital	Nature of holding
Blackrock, Inc	92,601,221	5.68	Indirect (5.13%), Securities lending (0.3%) & CFD (0.25%)
The Capital Group Companies, Inc	66,681,922	4.049	Indirect Interest
The Wellcome Trust	47,464,282	3.01	Direct Interest

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

Subsequent to year end, Blackrock, Inc have disclosed information in accordance with DTR5 on three occasions. The most recent being 11 May 2016, disclosing a holding of 94,068,439 Ordinary shares (5.79%, broken down as follows: Indirect, 4.85%; Securities lending, 0.54% & CFD, 0.39%).

DEADLINES FOR EXERCISING VOTING RIGHTS

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

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

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

- The £400m Medium Term Notes issued by the Company on 30 November 2009, the £300m Medium Term Notes issued by the Company on 6 December 2011 and the £400m Medium Term Notes issued by the Company on 12 December 2012 to various institutions ('MTN') and under the Group's £3bn euro Medium Term Note ('EMTN') programme contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of an MTN may require the Company to prepay the principal amount of that MTN.
- The \$500m US Notes issued by the Company to various institutions on 6 December 2007 under Section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note.
- The \$300m US Notes issued by the Company to various institutions on 6 December 2007 under Section 144a of the US Securities Act contain an option such that, upon a change of control event, combined with a credit ratings downgrade to below sub-investment level, any holder of such a US Note may require the Company to prepay the principal amount of that US Note.
- The amended and restated £1.1bn Credit Agreement dated 16 March 2016 (originally dated 29 September 2011) between the Company and various banks contains a provision such that,

upon a change of control event, unless new terms are agreed within 60 days, the facility under this agreement will be cancelled with all outstanding amounts becoming immediately payable with interest; and

- The amended and restated Relationship Agreement dated 6 October 2014 (originally dated 9 November 2004 as amended on 1 March 2005), between HSBC and the Company and relating to M&S Bank, contains certain provisions which address a change of control of the Company. Upon a change of control the existing rights and obligations of the parties in respect of M&S Bank continue and HSBC gains certain limited additional rights in respect of existing customers of the new controller of the Company. Where a third-party arrangement is in place for the supply of financial services products to existing customers of the new controller, the Company is required to procure the termination of such arrangement as soon as reasonably practicable (whilst not being required to do anything that would breach any contract in place in respect of such arrangement).

Where a third-party arrangement is so terminated, or does not exist, HSBC gains certain exclusivity rights in respect of the sale of financial services products to the existing customers of the new controller. Where the Company undertakes a re-branding exercise with the new controller following a change of control (which includes using any M&S brand in respect of the new controller's business or vice versa), HSBC gains certain termination rights (exercisable at its election) in respect of the Relationship Agreement.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

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, email and broadcasts by the Chief Executive and members of the Board at key points in the year to all head office and distribution centre employees and store management. Additionally, many of our store colleagues can join the briefings by telephone to hear directly from the business. These types of communication

are supplemented by our employee publications including 'Your M&S' magazine, Plan A updates and DVD presentations. More than 3,500 employees are elected onto Business Involvement Groups ('BIGs') across every store, distribution centre 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.

The 21st meeting of the European Works Council ('EWC') (established in 1995) will take place in September 2016. This Council provides an additional forum for informing, consulting and involving employee representatives from the countries in the European Economic Area. The EWC includes representatives from France, Belgium, The Netherlands, Czech Republic, Slovakia, Greece, Hungary, Lithuania, Latvia, Estonia, Poland, the Republic of Ireland and the UK. The EWC has the opportunity to be addressed by the Chief Executive and other senior members of the Company on issues that affect the European business. This includes the directors of International and multi-channel and the director of Plan A, who all have an impact across the European Community.

Directors and senior management regularly attend the National Business Involvement Group ('BIG') meetings. They visit stores and discuss with employees matters of current interest and concern to both employees and the business through meetings with local BIG representatives, specific listening groups and informal discussions. The business has continued to engage with employees and drive involvement. During the year the Company introduced a scheme called Give Me Five, which is a new way of getting great ideas heard by our leadership and turned into action. All employees can put forward ideas for improvements or change to any aspect of the business, and a shortlist of the best ideas are presented to a leadership panel, which includes the CEO. The winning idea is selected with a view to being implemented.

Share schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. In particular, around 24,800 employees currently participate in Sharesave, the Company's all employee Save As You Earn Scheme. Full details of all schemes are given on pages 106 and 107.

We have taken a specific focus on developing our mental wellbeing programme this year for our employees, our line managers and senior leaders. Mental wellbeing was placed as a challenge on our new senior Leadership development programme 'Fit to lead the Future' where 'disruptive' style learning on this agenda

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inspired our most senior leaders to bring about a step change to drive stronger levels of mental wellbeing across our business. Now a key part of our annual wellbeing calendar, our mental wellbeing week launched a bold awareness campaign across the business including peer to peer experience sharing, mental health training and external expert speaker events. We've also evolved our annual employee 'Weight Loss Challenge' to become a new 'Wellbeing Challenge' bringing a focus on our physical health in parity with our mental health. A new online hub of resources including an essential line manager guide on mental wellbeing gives our employees access to help and support in both developing their mental wellbeing and resilience and to our free, confidential team of mental wellbeing specialists 'Livewellworkwell'.

Employees are able to interact with one another and can gain access to information about corporate projects, which link to their personal health via our employee social media platform Yammer.

We have websites for both our pension schemes – the Defined Contribution (Your M&S Pension Saving Plan) and the Defined Benefit (The M&S Pension Scheme) – which are fully accessible to both employees and former employees that have retained benefits in either of those pension schemes. Employees are updated from time to time with any pertinent information on their pension savings as appropriate.

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 or civil partner status, sexual orientation or religion. All decisions relating to employment practices will be objective, free from bias and based solely upon work criteria and individual merit. The Company is responsive to the needs of its employees, customers and the community at large. 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 89 years old and joined the business at age 80. In April 2016 the Company once again featured in The Times Top 50 Employers for Women, highlighting how equal opportunities are available for all at M&S.

EMPLOYEES WITH DISABILITIES

It is our policy that people with disabilities should have full and fair consideration for all vacancies. During the year, we continued to demonstrate our commitment to interviewing those people with disabilities who fulfil the minimum criteria, and endeavouring to retain employees in the workforce if they become disabled during employment. We will actively retrain and adjust their environment where possible to allow them to maximise their potential. We continue to work with external organisations to provide workplace opportunities through our innovative Marks & Start scheme and by working closely with JobCentre Plus. The Marks & Start scheme was introduced into our distribution centre at Castle Donington in 2012/13, where we

work with Remploy to support people with disabilities and health conditions into work.

GROCERIES SUPPLY CODE OF PRACTICE

The Groceries (Supply Chain Practices) Market Investigation Order 2009 ('Order') and The Groceries Supply Code of Practice ('GSCOP') impose obligations on M&S relating to relationships with its suppliers of groceries. Under the Order and GSCOP, M&S is required to submit an annual compliance report to the Audit Committee for approval and then to the Competition and Markets Authority and Groceries Code Adjudicator.

M&S submitted its report to the Audit Committee on 18 May 2016 covering the period from 1 April 2015 to 2 April 2016. In accordance with the Order, a summary of that compliance report is set out below.

M&S believes that it has complied in full with GSCOP and the Order during the relevant period. No formal disputes have arisen during the reporting period. Two allegations regarding potential breaches of GSCOP were made by suppliers during the relevant period, but both have been resolved.

M&S operates systems and controls to ensure compliance with the Order and GSCOP including the following:

- The terms and conditions which govern the trading relationship between M&S and those of its suppliers that supply groceries to M&S incorporate GSCOP;
- New suppliers are issued with information as required by the Order;
- M&S has a Code Compliance Officer as required under the Order, supported by our in-house legal department; and

TOTAL GLOBAL M&S GREENHOUSE GAS EMISSIONS 2015/16

The disclosures required by law and additional information relating to the Group's greenhouse gas emissions are included in the table below. For full details of calculations and performance against our 2006/07 voluntary baseline, see the 2016 Plan A Report.

	2015/16 000 tonnes	2013/14 000 tonnes	% change
Direct emissions (scope 1)	182	168	+8
Indirect emissions from energy (scope 2)	328	340	-4
Total statutory emissions (scope 1 and 2)	510	508	Level
Transport, energy T&D, waste and travel emissions (scope 3)	56	59	-5
Total gross/location-based emissions	566	567	Level
Carbon intensity measure (per 1,000 sq ft of salesfloor)	29	30	-3
Green tariffs and bio-methane procured	299	302	-1
Remaining market-based emissions	266	265	Level
Carbon offsets	266	265	Level
Total net operational emissions	0	0	Level

Emissions are from operationally controlled activities in accordance WRI/WBCSD GHG Reporting Protocols (Revised edition) and 2014 Scope 2 Guidance using 2015 DEFRA/DECC conversion factors. As these emissions account for less than 10% of M&S's total carbon footprint we also engage with suppliers and customers to address the most significant sources.

→ Employee training on GSCOP is provided, including annual refresher programmes and new starter training.

POLITICAL DONATIONS

No political donations were made during the year ended 2 April 2016. M&S has a policy of not making donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

GOING CONCERN

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 02 to 21 as well as the Group's principal risks and uncertainties as set out on pages 28 and 29. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

⊕ **See Note 20 to the Financial Statements for more information on our Facilities**

LONG-TERM VIABILITY STATEMENT

The directors have assessed the prospects of the Company over a three-year period to 30 March 2019. This has taken into account the business model, strategic aims, risk appetite, and principal risks and uncertainties, along with the Company's current financial position. Based on this assessment, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period under review.

⊕ **See our approach to assessing long-term viability on p47**

AUDITOR

Auditor Resolutions to reappoint Deloitte LLP as auditor of the Company and to authorise the Audit Committee to determine their remuneration will be proposed at the 2016 AGM.

ANNUAL GENERAL MEETING

The AGM of Marks and Spencer Group plc will be held at Wembley Stadium, London on 12 July 2016 at 11am. The Notice of Meeting is given, together with explanatory notes, in a booklet which accompanies this report.

DIRECTORS' RESPONSIBILITIES

The Board is of the view that the Annual Report should be truly representative of

the year and provide shareholders with the information necessary to assess the Group's position, performance, business model and strategy. This cannot be achieved by merely reviewing the final document at the end of the preparation process. The Board ensured that its requirements were clearly communicated from the outset to each of the departments involved in the production of the Annual Report.

The Board has advised that the narrative reports should contain the key information needed by investors and other users of the report and should avoid being promotional in nature. Furthermore, the narrative reports in the front and the accounting information in the back of the report should be consistent and the teams involved in its production work closely together to achieve this. For an independent opinion, the Board also requested the Audit Committee review the Annual Report and provide feedback. The Committee's opinion on whether the report is fair, balanced and understandable is on pages 44 and 45.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRSs (as adopted by the EU) have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose,

at any time and with reasonable accuracy, the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed on pages 32 and 33 of the Annual Report, confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- The Strategic Report and the Directors' Report contained in this report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces; and
- The Annual Report, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

DISCLOSURE OF INFORMATION TO AUDITORS

Each 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.

The Directors' Report was approved by a duly authorised committee of the Board of Directors on 24 May 2016 and signed on its behalf by

Amanda Mellor
Group Secretary
London, 24 May 2016

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF MARKS AND SPENCER GROUP PLC

OPINION ON FINANCIAL STATEMENTS OF MARKS AND SPENCER GROUP PLC

IN OUR OPINION:

The financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 2 April 2016 and of the Group's profit for the 53 weeks then ended.

The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

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

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company statements of cash flows, the reconciliation of net cash flow to movement in net debt note, and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

SEPARATE OPINION IN RELATION TO IFRSs AS ISSUED BY THE IASB

As explained in note 1 to the financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the Group has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

GOING CONCERN AND THE DIRECTORS' ASSESSMENT OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE GROUP

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1 to the financial statements and the directors' statement on the longer-term viability of the company contained within the "Other disclosures" section on page 77.

We have nothing material to add or draw attention to in relation to:

→ The directors' confirmation on page 27 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;

→ The disclosures on pages 27-29 that describe those risks and explain how they are being managed or mitigated;
→ The directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
→ The directors' explanation on page 47 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their

statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

INDEPENDENCE

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical

responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

THE KEY RISKS WE IDENTIFIED ARE:

- 1 **Presentation of non-GAAP measures**
- 2 **Impairment of property, plant and equipment, and intangible assets**
- 3 **Inventory valuation and provisions**
- 4 **Revenue recognition – customer returns**
- 5 **Supplier rebates**
- 6 **Retirement benefits**

The assessed risks of material misstatement are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

In our previous year's report, our audit report included:

→ Impairment of store assets; however in the current year audit our risk of impairment includes all property, plant and equipment (PP&E) and intangible assets as a result of the factors impacting performance in certain parts of the Group; and

→ Franchise revenues and receivables within our revenue recognition risk, which we have not included in our current year report based on our knowledge of the franchise agreement terms and an assessment of the risk of franchise partners defaulting on debt.

The description of risks below should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 44 and 45.

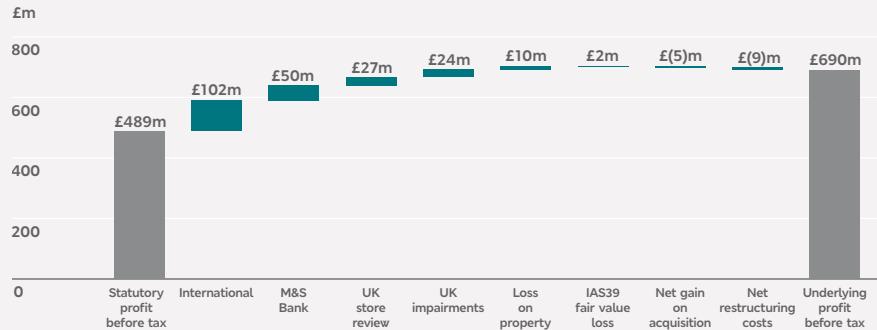
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1 PRESENTATION OF NON-GAAP MEASURES

RISK DESCRIPTION

The presentation of income and costs within non-GAAP measures (to derive 'underlying profit before tax') under IFRS is judgemental, with IFRS only requiring the separate presentation of material items. Judgement is exercised by management in determining the classification of items as non-underlying.

In the Group's reported results, significant adjustments have been made to statutory profit before tax of £489 million to derive underlying profit before tax of £690 million. Explanations of each adjustment are set out in notes 1 and 5 to the financial statements, and summarised in the graphic on the right.



In calculating the reported non-GAAP measures, there are two risks which may result in the underlying profit measure being misstated and therefore not being reliable to users of the financial statements:

→ Items may be included in the non-underlying adjustments which are underlying or recurring items, distorting the reported underlying earnings; and

→ Items may be omitted from the non-underlying adjustments which are material and one-off in nature.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK

We evaluated the appropriateness of the inclusion of items, both individually and in aggregate, within non-underlying profits, including assessing the consistency of items included year on year and ensuring adherence to IFRS requirements and latest Financial Reporting Council ("FRC") guidance. We also agreed these items to supporting evidence.

We assessed all items, either highlighted by management or identified through the course of our audit, which were regarded as one-off but included within underlying earnings to ensure that these are not material either individually or in aggregate. For all adjustments recorded in calculating underlying profits, we discussed the appropriateness of the item with the Audit Committee and any disclosure considerations.

Key observations We are satisfied that the items excluded from underlying earnings and the related disclosure of these items in the financial statements is appropriate.

INDEPENDENT AUDITOR'S REPORT
 CONTINUED

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

2 Impairment of property, plant and equipment (PP&E) and intangible assets

RISK DESCRIPTION

As described in the Accounting Policies in note 1 and in notes 14 and 15 to the Financial Statements, the Group held £5,027 million (2015: £5,031 million) of property, plant and equipment and £803 million (2015: £858 million) of intangible assets at 2 April 2016.

There is a risk that the carrying value of these assets may be higher than the recoverable amount, particularly in light of recent trading performance in certain parts of the Group. Management has performed an assessment of indicators of impairment for PP&E and a full impairment review for goodwill and brand intangibles. As a result, an impairment charge of £160 million has been recorded.

When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations which rely on the directors' assumptions and estimates of future trading performance.

The key assumptions applied by the directors in the impairment reviews are:

- Country-specific discount rates;
- Future revenue growth;

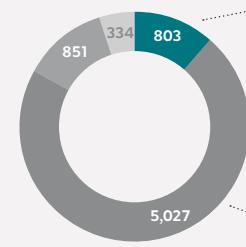
- Trading margin; and
- Store costs, including rent, staff payroll costs and general operating costs.

The directors consider that each retail store constitutes its own cash generating unit ('CGU'), with the exception of the outlet stores, which are used to clear old season general merchandise stock at a discount, and certain strategic stores.

The outlet stores are considered to represent one CGU in aggregate and strategic stores are evaluated as part of a country-wide impairment review.

The Group's accounting policy sets out a relevant shelter period for new stores to be taken into account when assessing indicators of impairment during initial years of trading to enable the store to establish itself in the market.

Non-current asset analysis (£m)



- Intangible assets
- PP&E
- Retirement benefit asset
- Other assets

Intangibles	Current year Impairment £m	Closing value £m
Goodwill & Brand – per una	–	£88m
Goodwill – Czech	£16m	–
Goodwill – India	–	£7m
Goodwill – Hungary	£3m	–
Goodwill – UK	–	£6m
Brands – M&S Mode and other	£32m	–
Computer software	£49m	£702m
Total intangibles	£100m	£803m
<hr/>		
PP&E		
Land and buildings	£30m	£2,595m
Fixtures, fitting & equipment	£28m	£2,363m
PP&E under construction	£2m	£69m
Total PP&E	£60m	£5,027m

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK

We considered the appropriateness of the methodology applied by the directors in calculating the impairment charges, and the judgements applied in determining the CGUs of the business. In addition, we assessed the design and implementation of controls in respect of the impairment review process and considered the adequacy of disclosures made in the Financial Statements.

We assessed the impairment models and calculations by:

- Checking the mechanical accuracy of the impairment models;
- Assessing the discount rates applied to the impairment reviews for each country with support from our internal valuations specialist and comparing the rates to our internal benchmark data;

- Comparing forecast growth rates to economic data; and
- Evaluating the information included in the impairment models through our knowledge of the business gained through reviewing trading plans, strategic initiatives, and meeting with senior trading managers from key categories and our retail industry knowledge.

We assessed the appropriateness of the shelter period for each store opened within that time frame, and compared the original investment case for the store against its current trading performance. Where stores were trading significantly below the original case, we considered the evidence available to support future improvements in performance, specifically by assessing

the trading plans and actions being taken on an individual store basis.

Key observations We assessed the level of impairment recorded in respect of the international business and are satisfied that the judgements applied by management are appropriate. We specifically assessed the impairment calculations of international goodwill and brand intangibles and concluded that the level of impairments recorded in the year are appropriate.

For the UK store assets, we concluded that the assumptions applied in the impairment calculations were appropriate, including the assumptions applied to new store shelter periods, and no additional impairments were identified from the work performed above.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

3 **Inventory valuation and provisions****RISK DESCRIPTION**

At 2 April 2016, the Group held inventories of £800 million (2015: £798 million). As described in the Accounting Policies in note 1 to the Financial Statements, inventories are carried at the lower of

cost and net realisable value. As a result, the directors apply judgement in determining the appropriate provisions for obsolete stock based upon a detailed analysis of old season inventory, net

realisable value below cost based upon plans for inventory to go into sale and stock loss based upon the run rate from recent inventory counts.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK

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

- Checking the effectiveness of key inventory controls operating across the UK business, including those at 13 distribution centres and 18 retail stores;
- Attending inventory counts at 13 distribution centres and 13 retail stores;
- Checking for a sample of individual products that invoiced costs have been correctly recorded and that the allocation of directly attributable costs has been correctly calculated;

- Comparing the net realisable value, obtained through a detailed review of sales subsequent to the year-end using audit analytics, to the cost price of inventories to check for completeness of the associated provision;
- Performing audit analytics on stock holding and movement data to identify product lines with indicators of low stock turn or significant levels of aged stock; and
- Meeting with buyers to validate the assumptions applied by management compared to the current purchasing strategy and ranging plans.

We evaluated consumer trends identified through benchmarking and external market data to challenge the assumptions underlying sales forecasts by category to assess the completeness of provisions for obsolescence.

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

4 **Revenue recognition – gift cards, loyalty schemes and returns****RISK DESCRIPTION**

As described in the Accounting Policies in note 1 to the Financial Statements, the Group's revenue recognition policies require the directors to make a number of assumptions in determining the reported revenue for the period. The key assumptions are:

- Gift cards, vouchers and loyalty schemes – the directors apply an

expected redemption rate to the total value of gift cards, vouchers and loyalty points in issue based on historic trends.

- Returns – customers are entitled to return products up to 35 days after purchase, giving rise to a risk that sales recognised during the period will be reversed in the next financial period. The directors apply judgement in

determining the provision required for returns based on actual sales data and recent product return rates. Returns from online sales are commonly at a higher level than traditional store retailing, resulting in this judgement becoming more significant in determining the level of provision required.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK

We considered each revenue-impacting provision individually, and assessed the appropriateness of the assumptions and judgements applied. We assessed the design and implementation of controls in respect of these revenue judgements, in addition to testing the effectiveness of key revenue controls operating across the UK business.

For the key assumptions used in the gift card and voucher, and loyalty scheme provisions, we assessed the historic rates of redemption and compared these to the directors' judgements.

We assessed the appropriateness of the methodology applied in calculating the returns provision, and compared the calculated provision to the actual level of

returns recorded subsequent to the period end.

Key observations We are satisfied that the key assumptions applied in calculating the returns, gift card, voucher and loyalty scheme provisions are appropriate.

INDEPENDENT AUDITOR'S REPORT
CONTINUED

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

5 Supplier rebates

RISK DESCRIPTION

As described in the Accounting Policies in note 1 and note 17 to the Financial Statements, the Group recognises a reduction in cost of sales as a result of amounts receivable from suppliers, primarily comprising contributions in relation to promotions in the Food business, strategic volume moves and some annual

volume-based rebates. The majority of these contributions tend to be small in unit value but high in volume and span relatively short periods of time, although these can be across the financial year end. There are a small number of larger arrangements, which relate to multi-year periods.

Judgement is required in determining the period over which the reduction in cost of sales should be recognised, requiring both a detailed understanding of the contractual arrangements themselves as well as complete and accurate source data to apply the arrangements to.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK

We tested that amounts recognised were accurate and recorded in the correct period based on the contractual performance obligations by agreeing a sample to individual supplier agreements. We also conducted interviews with a range of buyers and trading managers. In addition, we circularised a sample of 28 suppliers to test whether the arrangements recorded were complete.

We tested the completeness and accuracy of the systematic inputs to the calculations for recording supplier rebates and discounts by agreement to supporting

evidence, including volume data and promotion dates.

We performed revenue and margin analysis to understand detailed trends by product category in order to identify apparent anomalies which may indicate potential rebate income errors. Such anomalies were investigated to assess whether they were indicative of a mis-application of contractual terms or other calculation errors.

We also tested a sample of invoices and debit notes raised post-year end to test the completeness and accuracy of accrued

supplier income at 2 April 2016. In addition we tested the recoverability of the amounts due at the year end by agreeing the amounts to subsequent settlement.

Key observations The results of our testing were satisfactory. We consider the disclosure given around supplier rebates to provide an accurate understanding of the types of rebate income received and the impact on the statement of financial position as at 2 April 2016.

6 Retirement benefits

RISK DESCRIPTION

As described in the Accounting Policies in note 1 and in note 11 to the Financial Statements the Group has a defined benefit pension plan for its UK employees, which was closed to new entrants with effect from 1 April 2002, and a funded defined benefit pension scheme in the Republic of Ireland, where no new benefits have accrued since 31 October 2013.

At 2 April 2016, the Group recorded a net retirement benefit asset of £824 million (2015: £449 million), being the net of

scheme assets of £8,515 million (2015: £8,597 million), scheme liabilities of £7,682 million (2015: £8,136 million) and unfunded retirement benefits of £9 million (2015: £12 million). The Group net retirement benefit asset has shown significant volatility, as the valuation is sensitive to changes in key assumptions such as the discount rate, inflation and mortality estimates.

The setting of these assumptions is complex and an area of significant judgement; changes in any of these

assumptions can lead to a material movement in the net surplus. The increase/(decrease) in scheme surplus caused by a change in each of the key assumptions is set out below:

	2016 £m	2015 £m
A decrease in the discount rate of 0.25%	(90)	(70)
A decrease in the inflation rate of 0.25%	20	30
A decrease in the average life expectancy of one year	300	330

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE RISK

We evaluated the directors' assessment of the assumptions made in the valuation of the scheme liabilities, and evaluated the information contained within the actuarial valuation reports for each scheme. We assessed the design and implementation of controls in respect of the pension scheme valuation process.

We tested the membership census data used in the valuation of the schemes and,

with support from our own actuarial specialists, we considered the process applied by the Group's actuaries, the scope of the valuation performed and the key assumptions applied and evaluated their expertise. We benchmarked and performed a sensitivity analysis on the key variables in the valuation model, including:

→ Salary increases;

- Inflation rates;
- Mortality rates; and
- Discount rates.

Key observations From the work performed above we are satisfied that all assumptions applied in respect of the valuation of the scheme assets and liabilities are appropriate.

OUR APPLICATION OF MATERIALITY

We determined materiality for the Group to be £30 million.

We reported all audit differences in excess of £1 million.

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

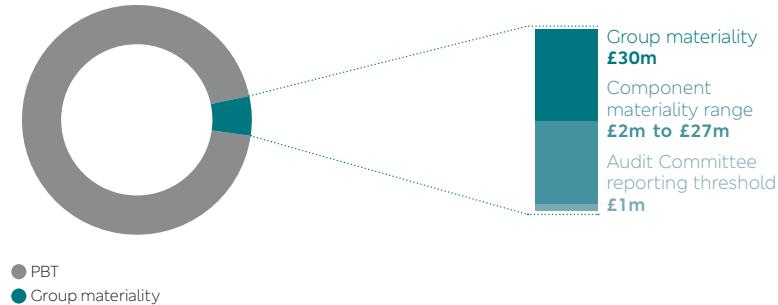
We determined materiality for the Group to be £30 million, based on a calculation of 5% of profit before tax adjusted for certain non-underlying items due to the nature and significance of these non-recurring items.

The adjusted profit used in our determination of materiality was £587 million, which is £98 million higher than statutory profit before tax of £489 million. The items we excluded from our calculation are listed below, and explained further in note 5 to the financial statements:

- Store closure costs and impairments in the international business – £32 million charge;
- Impairment of goodwill in the international business – £19 million charge;
- Other international impairments – £52 million; and
- Net gain on acquisition of joint venture holding Bradford warehouse of £5 million.

Our materiality of £30 million represented 6% of statutory profit before tax. For the previous year, we determined materiality for the Group to be £32 million based on 5% of profit before tax without adjustment for non-underlying items.

Materiality



The materiality applied by the component auditors (see below) ranged from £2 million to £27 million (2015: £2 million to £30 million), depending on the scale of the component's operations and our assessment of risks specific to each location.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1 million (2015: £1 million) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT
CONTINUED

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

We performed a full scope audit on seven components representing 99% of the Group's revenue, 90% of the Group's profit before tax and 90% of the Group's net assets.

During our first year as auditor of the Group, we visited all significant locations. For our second year, we have implemented a rotational approach to these visits.

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. A summary of the Group's retail operations is set out below (including the UK business).

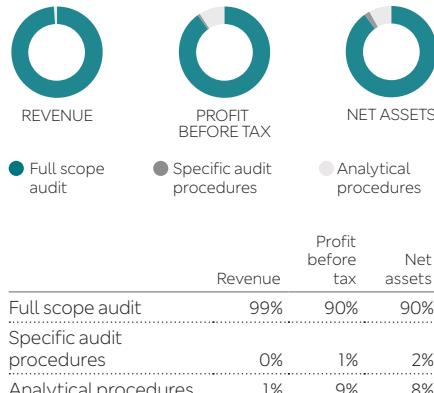
No. of territories	2015/16	2014/16
Wholly owned retail businesses	17	20
Retail joint ventures	2	2
Retail franchise operations*	33	34
Website only territories	7	4
Total	59	60

* includes two territories where wholly owned businesses also operate

Based on our assessment we focused our Group audit scope primarily on the audit work at seven wholly owned locations: United Kingdom, Republic of Ireland, Czech Republic, France, Greece, China and Hong Kong, and the joint venture in India. All of these were subject to a full audit, with the exception of China where specific audit procedures were performed on significant balances. Last year, a full scope audit was performed in Turkey; however analytical review procedures were completed for the current year as Turkey is not a significant element of the Group's business. This year, the Group audit team conducted a full scope audit in France due to the increasing significance of the business in the Group's reported results.

These components were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. All other wholly owned and joint venture businesses were subject to analytical review procedures. Whilst we audit the revenues received by the Group from franchise operations, which account for 3% (2015: 3%) of the Group's revenue, we do not audit the underlying franchise operations as part of our Group audit.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to a full audit.



The most significant component of the Group is its retail business in the United Kingdom, which accounts for 90% (2015: 89%) of the Group's reported revenue of £10,555 million, and generates operating profit of £627 million (2015: £641 million) which is offset by operating losses from the international segment resulting in a Group operating profit of £584 million (2015: £701 million).

million). The Group audit team performs the audit of the UK business without the involvement of a component team. During the course of our audit, the Group audit team conducted 13 distribution centre and 18 retail store visits in the UK to understand the current trading performance and, at certain locations, perform tests of internal controls and validate levels of inventory held.

As part of our first year audit, last year a senior member of the Group audit team visited each of the significant components. For this year, and going forwards, we have developed a programme of planned visits so that a senior member of the Group audit team visits each of the components subject to a full audit or specific audit procedures at least once every two years, and the most significant of them at least once a year. The programme of visits are set out below, with future years subject to change as the Group's operations continue to evolve.

Component	2015 (Last year)	2016 (This year)	2017	2018
China	✓	✓	✓	✓
Hong Kong	✓	✓		✓
India	✓	✓	✓	✓
Republic of Ireland	✓		✓	
Czech Republic	✓	✓		✓
Greece	✓	✓	✓	✓

In addition to our programme of planned visits, we send detailed instructions to our component audit teams, include them in our team briefings, discuss their risk assessment, attend closing meetings, and review their audit working papers.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

IN OUR OPINION:

→ The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

→ The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records

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

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have

not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- Materially inconsistent with the information in the audited financial statements; or

→ Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or

→ Otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1

(UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act

2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Group's and the company's circumstances and have

been consistently applied and adequately disclosed;

- The reasonableness of significant accounting estimates made by the directors; and
- The overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual

report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Ian Waller (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
24 May 2016

CONSOLIDATED INCOME STATEMENT

	Notes	53 weeks ended 2 April 2016			52 weeks ended 28 March 2015		
		Underlying £m	Non-underlying £m	Total £m	Underlying £m	Non-underlying £m	Total £m
Revenue	2, 3	10,555.4	–	10,555.4	10,311.4	–	10,311.4
Operating profit	2, 3, 5	784.9	(200.8)	584.1	762.5	(61.2)	701.3
Finance income	6	21.1	–	21.1	15.5	–	15.5
Finance costs	6	(116.4)	–	(116.4)	(116.8)	–	(116.8)
Profit before tax	4, 5	689.6	(200.8)	488.8	661.2	(61.2)	600.0
Income tax expense	7	(118.8)	34.4	(84.4)	(124.8)	6.5	(118.3)
Profit for the year		570.8	(166.4)	404.4	536.4	(54.7)	481.7
Attributable to:							
Owners of the parent		573.3	(166.4)	406.9	541.2	(54.7)	486.5
Non-controlling interests		(2.5)	–	(2.5)	(4.8)	–	(4.8)
		570.8	(166.4)	404.4	536.4	(54.7)	481.7
Basic earnings per share	8	35.0p		24.9p	33.1p		29.7p
Diluted earnings per share	8	34.9p		24.8p	32.9p		29.5p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	53 weeks ended 2 April 2016		52 weeks ended 28 March 2015	
		£m	£m	£m	£m
Profit for the year			404.4		481.7
Other comprehensive income:					
Items that will not be reclassified to profit or loss					
Remeasurements of retirement benefit schemes	11		346.2		193.7
Tax charge on items that will not be reclassified			(45.6)		(40.2)
			300.6		153.5
Items that will be reclassified subsequently to profit or loss					
Foreign currency translation differences			7.3		(7.5)
Cash flow hedges and net investment hedges					
– fair value movements recognised in other comprehensive income			(30.1)		221.2
– reclassified and reported in profit or loss			(22.1)		(60.0)
– amount recognised in inventories			5.9		(21.6)
Tax credit/(charge) on cash flow hedges and net investment hedges			6.5		(21.2)
			(32.5)		110.9
Other comprehensive income for the year, net of tax			268.1		264.4
Total comprehensive income for the year			672.5		746.1
Attributable to:					
Owners of the parent			675.0		750.9
Non-controlling interests			(2.5)		(4.8)
			672.5		746.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 2 April 2016 £m	As at 28 March 2015 £m
Assets			
Non-current assets			
Intangible assets	14	802.8	858.2
Property, plant and equipment	15	5,027.1	5,031.1
Investment property		15.5	15.6
Investment in joint ventures		6.9	12.2
Other financial assets	16	3.0	3.0
Retirement benefit asset	11	851.0	460.7
Trade and other receivables	17	234.7	283.3
Derivative financial instruments	21	74.0	75.8
Deferred tax assets	23	–	1.2
		7,015.0	6,741.1
Current assets			
Inventories		799.9	797.8
Other financial assets	16	19.1	11.6
Trade and other receivables	17	321.1	321.8
Derivative financial instruments	21	72.1	117.9
Current tax assets		1.6	–
Cash and cash equivalents	18	247.6	205.9
		1,461.4	1,455.0
Total assets		8,476.4	8,196.1
Liabilities			
Current liabilities			
Trade and other payables	19	1,617.7	1,642.4
Partnership liability to the Marks & Spencer UK Pension Scheme	12	71.9	71.9
Borrowings and other financial liabilities	20	297.5	279.4
Derivative financial instruments	21	28.5	7.7
Provisions	22	14.0	46.2
Current tax liabilities		75.2	64.0
		2,104.8	2,111.6
Non-current liabilities			
Retirement benefit deficit	11	26.9	11.7
Trade and other payables	19	353.0	319.7
Partnership liability to the Marks & Spencer UK Pension Scheme	12	383.8	441.0
Borrowings and other financial liabilities	20	1,774.7	1,745.9
Derivative financial instruments	21	0.2	20.0
Provisions	22	52.0	32.1
Deferred tax liabilities	23	337.6	315.3
		2,928.2	2,885.7
Total liabilities		5,033.0	4,997.3
Net assets		3,443.4	3,198.8
Equity			
Issued share capital	24	405.8	412.0
Share premium account		411.3	392.4
Capital redemption reserve		2,210.5	2,202.6
Hedging reserve		32.3	64.3
Other reserve		(6,542.2)	(6,542.2)
Retained earnings		6,927.5	6,670.5
Total shareholders' equity		3,445.2	3,199.6
Non-controlling interests in equity		(1.8)	(0.8)
Total equity		3,443.4	3,198.8

The financial statements were approved by the Board and authorised for issue on 24 May 2016. The financial statements also comprise the notes on pages 90 to 125.

Steve Rowe Chief Executive Officer

Helen Weir Chief Finance Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Other reserve ¹ £m	Retained earnings ² £m	Total £m	Non- controlling interest £m	Total £m
As at 30 March 2014	408.1	355.5	2,202.6	(41.8)	(6,542.2)	6,325.1	2,707.3	(0.6)	2,706.7
Profit/(loss) for the year	–	–	–	–	–	486.5	486.5	(4.8)	481.7
Other comprehensive (expense)/income:									
Foreign currency translation	–	–	–	(2.0)	–	(5.5)	(7.5)	–	(7.5)
Remeasurements of retirement benefit schemes	–	–	–	–	–	193.7	193.7	–	193.7
Tax charge on items that will not be reclassified	–	–	–	–	–	(40.2)	(40.2)	–	(40.2)
Cash flow hedges and net investment hedges									
– fair value movements recognised in other comprehensive income	–	–	–	210.9	–	10.3	221.2	–	221.2
– reclassified and reported in profit or loss ³	–	–	–	(60.0)	–	–	(60.0)	–	(60.0)
– amount recognised in inventories	–	–	–	(21.6)	–	–	(21.6)	–	(21.6)
Tax on cash flow hedges and net investment hedges	–	–	–	(21.2)	–	–	(21.2)	–	(21.2)
Other comprehensive income	–	–	–	106.1	–	158.3	264.4	–	264.4
Total comprehensive income/(expense)	–	–	–	106.1	–	644.8	750.9	(4.8)	746.1
Transactions with owners:									
Dividends	–	–	–	–	–	(280.7)	(280.7)	–	(280.7)
Transactions with non-controlling shareholders	–	–	–	–	–	–	–	4.6	4.6
Shares issued on exercise of employee share options	3.9	36.9	–	–	–	–	40.8	–	40.8
Purchase of own shares held by employee trusts	–	–	–	–	–	(24.2)	(24.2)	–	(24.2)
Release of share-based payments	–	–	–	–	–	(1.1)	(1.1)	–	(1.1)
Deferred tax on share schemes	–	–	–	–	–	6.6	6.6	–	6.6
As at 28 March 2015	412.0	392.4	2,202.6	64.3	(6,542.2)	6,670.5	3,199.6	(0.8)	3,198.8
As at 29 March 2015	412.0	392.4	2,202.6	64.3	(6,542.2)	6,670.5	3,199.6	(0.8)	3,198.8
Profit/(loss) for the year	–	–	–	–	–	406.9	406.9	(2.5)	404.4
Other comprehensive (expense)/income:									
Foreign currency translation	–	–	–	(0.5)	–	7.8	7.3	–	7.3
Remeasurements of retirement benefit schemes	–	–	–	–	–	346.2	346.2	–	346.2
Tax charge on items that will not be reclassified	–	–	–	–	–	(45.6)	(45.6)	–	(45.6)
Cash flow hedges and net investment hedges									
– fair value movements recognised in other comprehensive income	–	–	–	(21.8)	–	(8.3)	(30.1)	–	(30.1)
– reclassified and reported in profit or loss ³	–	–	–	(22.1)	–	–	(22.1)	–	(22.1)
– amount recognised in inventories ³	–	–	–	5.9	–	–	5.9	–	5.9
Tax on cash flow hedges and net investment hedges	–	–	–	6.5	–	–	6.5	–	6.5
Other comprehensive income/(expense)	–	–	–	(32.0)	–	300.1	268.1	–	268.1
Total comprehensive income/(expense)	–	–	–	(32.0)	–	707.0	675.0	(2.5)	672.5
Transactions with owners:									
Dividends	–	–	–	–	–	(301.7)	(301.7)	–	(301.7)
Transactions with non-controlling shareholders	–	–	–	–	–	–	–	1.5	1.5
Shares issued on exercise of employee share options	1.7	18.9	–	–	–	–	20.6	–	20.6
Purchase of own shares held by employee trusts	–	–	–	–	–	(10.9)	(10.9)	–	(10.9)
Shares purchased in buyback	(7.9)	–	7.9	–	–	(150.7)	(150.7)	–	(150.7)
Credit for share-based payments	–	–	–	–	–	17.2	17.2	–	17.2
Deferred tax on share schemes	–	–	–	–	–	(3.9)	(3.9)	–	(3.9)
As at 2 April 2016	405.8	411.3	2,210.5	32.3	(6,542.2)	6,927.5	3,445.2	(1.8)	3,443.4

- 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 'Retained earnings reserve' includes a cumulative £4.8m loss (last year £12.6m loss) in the currency reserve.
- Amounts 'reclassified and reported in profit or loss' are presented within finance costs offsetting the revaluation of the hedged bonds (last year £4.4m was presented in cost of sales and £55.6m in finance costs). 'Amount recognised in inventories' includes £(93.7)m included cost of sales for the year and £87.8m (last year £21.6m) that remains in inventory at the balance sheet date.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	53 weeks ended 2 April 2016 £m	52 weeks ended 28 March 2015 £m
Cash flows from operating activities			
Cash generated from operations	27	1,311.3	1,349.1
Income tax paid		(99.3)	(71.1)
Net cash inflow from operating activities		1,212.0	1,278.0
Cash flows from investing activities			
Proceeds on property disposals		30.6	35.4
Purchase of property, plant and equipment		(363.3)	(521.8)
Purchase of intangible assets		(186.8)	(178.0)
(Purchase)/reduction of current financial assets		(7.2)	6.0
Interest received		6.8	9.3
Acquisition of subsidiary	25	(56.2)	–
Net cash used in investing activities		(576.1)	(649.1)
Cash flows from financing activities			
Interest paid ¹		(113.5)	(115.3)
Cash inflow/(outflow) from borrowings		3.1	(165.7)
Repayment of syndicated loan notes		(19.9)	(10.2)
Decrease in obligations under finance leases		(2.4)	(4.8)
Payment of liability to the Marks & Spencer UK Pension Scheme		(56.0)	(54.4)
Equity dividends paid		(301.7)	(280.7)
Shares issued on exercise of employee share options		20.6	40.8
Purchase of own shares held by employee trust		(10.9)	(24.2)
Share buyback		(150.7)	–
Net cash used in financing activities		(631.4)	(614.5)
Net cash inflow from activities		4.5	14.4
Effects of exchange rate changes		3.7	(2.3)
Opening net cash		187.8	175.7
Closing net cash	28	196.0	187.8

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

	Notes	53 weeks ended 2 April 2016 £m	52 weeks ended 28 March 2015 £m
Reconciliation of net cash flow to movement in net debt			
Opening net debt		(2,223.2)	(2,463.6)
Net cash inflow from activities		4.5	14.4
Increase/(decrease) in current financial assets		7.2	(6.0)
Decrease in debt financing		75.2	235.1
Exchange and other non-cash movements		(2.0)	(3.1)
Movement in net debt		84.9	240.4
Closing net debt	28	(2,138.3)	(2,223.2)

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES**General information**

The current financial statements are prepared for the 53 week period ended 2 April 2016, whereas the prior financial period was the 52 weeks ended 28 March 2015.

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 29 including the Group's principal risks and uncertainties as set out on pages 27 to 29. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its bank facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements.

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

New accounting standards adopted by the Group

There have been no significant changes to accounting under IFRS which have affected the Group's results. For the current financial year, the only changes to the IFRS, IFRS IC interpretations and amendments that are effective for the first time in this financial year are the Annual Improvements to IFRSs: 2011-2013 cycle. These have not had a material impact on the Group.

New accounting standards in issue but not yet effective

The following IFRS have been issued but are not yet effective:

→ IFRS 16 'Leases' was issued on 13 January 2016 and is effective for periods beginning on or after 1 January 2019. Early adoption is permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The standard is yet to be endorsed by the EU. The standard represents a significant change in the accounting and reporting of leases for lessees as it provides a single lessee accounting model, and as such, requires lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. Accounting requirements for lessors are substantially unchanged from IAS 17. The impact of the standard on the Group is currently being assessed and it is not yet practicable to quantify the effect of IFRS 16 on these consolidated financial statements;

→ IFRS 9 'Financial Instruments' replaces all phases of the financial instruments project and IAS 39 'Financial Instruments: Recognition and Measurement'. The standard is effective from 1 January 2018 and introduces: new requirements for the classification and measurement of financial assets and financial liabilities; a new model based on expected credit losses for recognising provisions; and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology. It is not yet practicable to quantify the effect of IFRS 9 on the Group. Work on the impact of the new recognition, impairment and general hedge accounting requirements is in its early stages and we expect new processes and changes to the existing IT systems may be required to aid the Group's implementation of the standard; and

→ IFRS 15 'Revenue from Contracts with Customers' is effective for periods beginning on or after 1 January 2018 with early adoption permitted. It has not yet been endorsed by the EU. The standard establishes a principles based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods or services is transferred. It applies to all contracts with customers, except those in the scope of other standards. It replaces the separate models for goods, services and construction contracts under the current accounting standards. Based on the Group's preliminary assessment from work performed to date, the Group believes that the adoption of IFRS 15 will not have a material impact on its consolidated results but work is still ongoing to fully quantify its impact.

A summary of the Company's and the Group's accounting policies is given below:

Accounting convention

The financial statements are drawn up on the historical cost basis of accounting, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

Basis of consolidation

The Group financial statements incorporate the financial statements of Marks and Spencer Group plc and all its subsidiaries made up to the period end date. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

Subsidiaries

Subsidiary undertakings are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies. This power is generally accompanied by the Group having a shareholding of more than one half of the voting rights. Subsidiary undertakings acquired during the year are recorded using the acquisition method of accounting and their results are included from the date of acquisition.

The separable net assets, including property, plant and equipment and intangible assets, of the newly acquired subsidiary undertakings are incorporated into the consolidated financial statements on the basis of the fair value as at the effective date of control.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Revenue

Revenue comprises sales of goods to customers outside the Group less an appropriate deduction for actual and expected returns, discounts and loyalty scheme vouchers, and is stated net of value added tax and other sales taxes. Revenue is recognised when goods are delivered to our franchise partners or customers and the significant risks and rewards of ownership have been transferred to the buyer.

Supplier income

In line with industry practice, the Group enters into agreements with suppliers to share the costs and benefits of promotional activity and volume growth. The Group receives income from its suppliers based on specific agreements in place. This supplier income received is recognised as a deduction from cost of sales based on the entitlement that has been earned up to the balance sheet date for each relevant supplier agreement. Marketing contributions, equipment hire and other non-judgemental, fixed rate supplier charges are not included in the Group's definition of supplier income.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Supplier income continued

The types of supplier income recognised by the Group and the associated recognition policies are:

A. Promotional contribution: Includes supplier contributions to promotional giveaways and pre-agreed contributions to annual 'spend and save' activity.

Income is recognised as a deduction to cost of sales over the relevant promotional period.

Income is calculated and invoiced at the end of the promotional period based on actual sales or according to fixed contribution arrangements. Contributions earned but not invoiced are accrued at the end of the relevant period.

B. Volume-based rebates: Includes annual growth incentives, seasonal contributions and contributions to share economies of scale resulting from moving product supply.

Annual growth incentives are calculated and invoiced at the end of the financial year, once earned, based on fixed percentage growth targets agreed for each supplier at the beginning of the year. They are recognised as a reduction in cost of sales in the year to which they relate. Other volume based rebates are agreed with the supplier and spread over the relevant season/contract period to which they relate. Contributions earned but not invoiced are accrued at the end of the relevant period.

Uncollected supplier income at the balance sheet date is classified within the financial statements as follows:

A. Trade and other payables: The majority of income due from suppliers is netted against amounts owed to that supplier as the Group has the right to offset these balances. As such the outstanding supplier income within trade and other payables at year end is immaterial.

B. Trade and other receivables: Supplier income that has been earned but not invoiced at the balance sheet date is recognised in trade and other receivables and primarily relates to volume based rebates that run up to the period end.

In order to provide users of the accounts with greater understanding in this area, additional balance sheet disclosure is provided in note 17 to the financial statements.

Dividends

Final dividends are recorded in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recorded in the period in which they are approved and paid.

Pensions

Funded pension plans are in place for the Group's UK employees and some employees overseas.

For defined benefit pension schemes, the difference between the fair value of the assets and the present value of the defined benefit obligation is recognised as an asset or liability in the statement of financial position. The defined benefit obligation is actuarially calculated using the projected unit credit method.

The service cost of providing retirement benefits to employees during the year, together with the cost of any benefits relating to past service, is charged to operating profit in the year.

The net interest cost on the net retirement benefit asset/liability is calculated by applying the discount rate, measured at the beginning of the year, to the net defined benefit asset/liability and is included as a single net amount in finance income.

Remeasurements, being actuarial gains and losses, together with the difference between actual investment returns and the return implied by the net interest cost, are recognised immediately in the statement of comprehensive income.

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

Intangible assets

A. Goodwill: Goodwill arising on consolidation represents the excess of the consideration paid and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable assets and liabilities (including intangible assets) of the acquired entity at the date of the acquisition. Goodwill is recognised as an asset and assessed for impairment annually or as triggering events occur. Any impairment is recognised immediately in the income statement.

B. Brands: Acquired brand values are held on the statement of financial position initially at cost. Definite life intangibles are amortised on a straight-line basis over their estimated useful lives. Indefinite life intangibles are tested for impairment annually or as triggering events occur. Any impairment in value is recognised immediately in the income statement.

C. Software intangibles: Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Capitalised software costs include external direct costs of goods and services, as well as internal payroll related costs for employees who are directly associated with the project.

Capitalised software development costs are amortised on a straight-line basis over their expected economic lives, normally between three and ten years. Computer software under development is held at cost less any recognised impairment loss. Any impairment in value is recognised immediately in the income statement.

Property, plant and equipment

The Group's policy is to state property, plant and equipment at cost less accumulated depreciation and any recognised impairment loss. Property is not revalued for accounting purposes. Assets in the course of construction are held at cost less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs.

Depreciation is provided to write off the cost of tangible non-current assets (including investment properties), less estimated residual values, by equal annual instalments as follows:

- Freehold land – not depreciated;
- Freehold and leasehold buildings with a remaining lease term over 50 years – depreciated to their residual value over their estimated remaining economic lives;
- Leasehold buildings with a remaining lease term of less than 50 years – depreciated over the remaining period of the lease; and
- Fixtures, fittings and equipment – 3 to 25 years according to the estimated economic life of the asset.

Residual values and useful economic lives are reviewed annually. Depreciation is charged on all additions to, or disposals of, depreciating assets in the year of purchase or disposal.

Any impairment in value is recognised immediately in the income statement.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Leasing

Where assets are financed by leasing agreements and the risks and rewards are substantially transferred to the Group (finance leases) the assets are treated as if they had been purchased outright, and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on leased assets is charged to the income statement on the same basis as owned assets, unless the term of the lease is shorter. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income statement.

All other leases are operating leases and the costs in respect of operating leases are charged on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, a rent free period) is recognised as deferred income and is released over the life of the lease.

Leasehold prepayments

Payments made to acquire leasehold land and buildings are included in prepayments at cost and are amortised over the life of the lease.

Cash and cash equivalents

Cash and cash equivalents includes short-term deposits with banks and other financial institutions, with an initial maturity of three months or less and credit card payments received within 48 hours.

Inventories

Inventories are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Cost includes all direct expenditure and other attributable costs incurred in bringing inventories to their present location and condition. All inventories are finished goods. Certain purchases of inventories may be subject to cash flow hedges for foreign exchange risk. The Group applies a basis adjustment for those purchases in a way that the cost is initially established by reference to the hedged exchange rate and not the spot rate at the day of purchase.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. A fair value for the equity-settled share awards is measured at the date of grant. The Group measures the fair value of each award using the Black-Scholes model where appropriate.

The fair value of each award is recognised as an expense over the vesting period on a straight-line basis, after allowing for an estimate of the share awards that will eventually vest. The level of vesting is reviewed at each reporting period and the charge is adjusted to reflect actual and estimated levels of vesting.

Foreign currencies

The results of overseas subsidiaries are translated at the weighted average of monthly exchange rates for revenue and profits. The statements of financial position of overseas subsidiaries are translated at year end exchange rates. The resulting exchange differences are booked into reserves and reported in the consolidated statement of comprehensive income.

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities held at the end of the reporting period are translated at the closing balance sheet rate. The resulting exchange gain or loss is recognised within the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Taxation

Tax expense comprises current and deferred tax. Tax is recognised in the income statement, except to the extent it relates to items recognised in other comprehensive income or directly in equity, in which case the related tax is also recognised in other comprehensive income or directly in equity.

Deferred tax is accounted for using a temporary difference approach, and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, applying tax rates and laws enacted or substantively enacted at the end of the reporting period.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the reversal of the temporary difference can be controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

A. Trade and other receivables: Trade receivables are recorded initially at fair value and subsequently measured at amortised cost. Subsequently, this results in their recognition at nominal value less any allowance for any doubtful debts.

B. Other financial assets: Other financial assets consist of investments in debt and equity securities and short-term investments and are classified as either 'available-for-sale' or 'fair value through profit or loss'. Available for sale financial assets are initially measured at fair value, including transaction costs directly attributable to the acquisition of the financial asset. Financial assets held at fair value through profit 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 the income statement 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 income statement for the period. Equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by other means are held at cost.

C. Classification of financial liabilities and equity: Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

1 ACCOUNTING POLICIES CONTINUED

Financial instruments continued

D. Bank borrowings: Interest-bearing bank loans and overdrafts are initially recorded at fair value, which equals the proceeds received, net of direct issue costs. They are subsequently held at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for using an effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

E. Loan notes: Long-term loans are initially measured at fair value net of direct issue costs and are subsequently held at amortised cost unless the loan is designated in a hedge relationship, in which case hedge accounting treatment will apply.

F. Trade payables: Trade payables are recorded initially at fair value and subsequently measured at amortised cost. Generally this results in their recognition at their nominal value.

G. Equity instruments: Equity instruments issued by the Company are recorded at the consideration received, net of direct issue costs.

Derivative financial instruments and hedging activities

The Group primarily uses interest rate swaps, cross currency swaps and forward foreign currency contracts to manage its exposures to fluctuations in interest rates and foreign exchange rates. These instruments are initially recognised at fair value on the trade date and are subsequently remeasured at their fair value at the end of the reporting period. The method of recognising the resulting gain or loss is dependent on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

The Group designates certain hedging derivatives as either:

- A hedge of a highly probable forecast transaction or change in the cash flows of a recognised asset or liability (a cash flow hedge);
- A hedge of the exposure to change in the fair value of a recognised asset or liability (a fair value hedge); or
- A hedge of the exposure on the translation of net investments in foreign entities (a net investment hedge).

At the inception of a hedging relationship the hedging instrument and the hedged item are documented, along with the risk management objectives and strategy for undertaking various hedge transactions, and prospective effectiveness testing is performed. During the life of the hedging relationship, prospective and retrospective effectiveness testing is performed to ensure the instrument remains an effective hedge of the transaction. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

A. Cash flow hedges: Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised in other comprehensive income in the hedging reserve and any ineffective portion is recognised immediately in the income statement. If the firm commitment or forecast transaction that is the subject of a cash flow hedge results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in comprehensive income are included in the initial measurement of the asset or liability.

For hedges that do not result in the recognition of an asset or a liability, amounts deferred in comprehensive income are recognised in the income statement in the same period in which the hedged items affect net profit or loss.

B. Fair value hedges: Changes in the fair value of a derivative instrument designated in a fair value hedge, or for non-derivatives the foreign currency component of carrying value, are recognised in the income statement. The hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the income statement.

C. Net investment hedges: Changes in the fair value of derivative or non-derivative financial instruments that are designated and effective as hedges of net investments are recognised in other comprehensive income in the hedging reserve and any ineffective portion is recognised immediately in the income statement.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

D. Discontinuance of hedge accounting: Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, the hedge relationship no longer qualifies for hedge accounting, the forecast transaction is no longer expected to occur or the Group de-designates the hedge relationship.

When a cash flow hedge is discontinued, any cumulative gain or loss on the hedging instrument recognised in comprehensive income is retained in equity until the forecast transaction occurs. Subsequent changes in the fair value of the hedging instruments when the forecast transaction is no longer highly probable but is still expected to occur, are recognised in the income statement. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in comprehensive income is transferred to the income statement for the period.

When a fair value hedge is discontinued, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement from that date.

When a net investment hedge is discontinued, the subsequent changes in fair value of a derivative (or foreign exchange gains/losses on recognised financial liabilities) are recognised in the income statement. The gain or loss on the hedging instrument recognised in other comprehensive income is reclassified to the income statement only on disposal of the net investment.

The Group does not use derivatives to hedge income statement translation exposures.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the income statement. Embedded derivatives are carried in the statement of financial position at fair value from the inception of the host contract.

Changes in fair value are recognised within the income statement during the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED**1 ACCOUNTING POLICIES CONTINUED****Critical accounting estimates and judgements**

The preparation of consolidated financial statements requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are:

A. Impairment of goodwill and brands: The Group is required to test annually or as triggering events occur, whether the goodwill or brands are subject to 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. Determination of the appropriate period of future cashflows is also necessary where it would be inappropriate to assume the asset will continue into perpetuity. 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 notes 5 and 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, gift cards and loyalty scheme accruals: Accruals for sales returns, deferred income in relation to loyalty scheme redemptions and gift card and credit voucher redemptions are estimated on the basis of historical returns and redemptions. These are recorded so as to allocate them to the same period as that in which the original revenue is recorded. These balances are reviewed regularly and updated to reflect management's latest best estimates. However, actual returns and redemptions could vary from those estimates.

F. Inventory valuation and provisioning: Inventories are stated at the lower of cost and net realisable value, on a weighted average cost basis which requires the estimation of the eventual sales price of goods to customers in the future. Provisions are recognised where the net realisable value is assessed to be lower than cost.

Non-underlying items

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 or impairments of properties where a commitment to close has been demonstrated;
- One-off pension credits arising on changes to the defined benefit schemes' rules and practices;
- Interest relating to significant and one-off repayments from tax litigation claims;
- Restructuring costs;
- Significant and one-off impairment charges and provisions that distort underlying trading;
- Fair value movement in financial instruments;
- Costs relating to strategy changes that are not considered normal operating costs of the underlying business;
- Adjustment in income from HSBC in relation to M&S Bank due to a non-recurring provision recognised by M&S Bank for the cost of providing redress to customers in respect of possible mis-selling of M&S Bank financial products; and
- Ex-gratia payment received from HSBC in relation to the mis-selling of financial products.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

2 SEGMENTAL INFORMATION

IFRS 8 requires operating segments to be identified on the basis of internal reporting on components of the Group that are regularly reviewed by the chief operating decision maker to allocate resources to the segments and to assess their performance.

The chief operating decision maker has been identified as the executive directors. The executive directors review the Group's internal reporting in order to assess performance and allocate resources across each operating segment. The operating segments are UK and International which are reported in a manner consistent with the internal reporting to the executive directors.

The UK segment consists of the UK retail business and UK franchise operations. The International segment consists of Marks & Spencer owned businesses in the Republic of Ireland, Europe and Asia, together with international franchise operations.

The executive directors assess the performance of the operating segments based on a measure of operating profit. This measurement basis excludes the effects of non-underlying items from the operating segments. The executive directors also monitor revenue within the segments and gross profit within the UK segment. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segments by subcategory and gross profit within the UK segment by subcategory.

The following is an analysis of the Group's revenue and results by reportable segment:

	53 weeks ended 2 April 2016			52 weeks ended 28 March 2015				
	Management £m	Adjustment ¹ £m	Non- underlying Items ² £m	Statutory £m	Management £m	Adjustment ¹ £m	Non- underlying Items ² £m	Statutory £m
Clothing & Home revenue	3,961.3	–	–	3,961.3	3,987.4	1.0	–	3,988.4
Food revenue	5,509.5	–	–	5,509.5	5,234.7	–	–	5,234.7
UK revenue	9,470.8	–	–	9,470.8	9,222.1	1.0	–	9,223.1
Franchised	329.7	–	–	329.7	341.3	–	–	341.3
Owned	754.9	–	–	754.9	747.0	–	–	747.0
International revenue	1,084.6	–	–	1,084.6	1,088.3	–	–	1,088.3
Group revenue	10,555.4	–	–	10,555.4	10,310.4	1.0	–	10,311.4
Clothing & Home gross profit	2,180.7	–	–	2,098.9	–	–	–	–
Food gross profit	1,806.2	–	–	1,718.5	–	–	–	–
UK gross profit	3,986.9	(300.9)	–	3,686.0	3,817.4	(293.4)	–	3,524.0
UK operating costs	(3,320.1)	300.9	(49.1)	(3,068.3)	(3,207.4)	293.4	(15.8)	(2,929.8)
M&S Bank	59.9	–	(50.3)	9.6	60.2	–	(13.8)	46.4
UK operating profit	726.7	–	(99.4)	627.3	670.2	–	(29.6)	640.6
International operating profit/(loss)	58.2	–	(101.4)	(43.2)	92.3	–	(31.6)	60.7
Group operating profit	784.9	–	(200.8)	584.1	762.5	–	(61.2)	701.3
Finance income	21.1	–	–	21.1	15.5	–	–	15.5
Finance costs	(116.4)	–	–	(116.4)	(116.8)	–	–	(116.8)
Profit before tax	689.6	–	(200.8)	488.8	661.2	–	(61.2)	600.0

1. Adjustments to revenue in the prior year relate to refunds recognised in cost of sales for management accounting purposes (last year £1.3m credit) and an adjustment for agency transactions presented gross in management accounts (last year £0.3m charge). In the current year these adjustments are reflected in the management number. Management gross profit for the UK segment excludes certain expenses resulting in an adjustment between cost of sales and selling and administrative expenses of £300.9m (last year £293.4m).
2. Management profit excludes the adjustments (income or charges) made to reported profit before tax that are one-off in nature, significant and distort the Group's underlying performance (see note 5).

Other segmental information

	2016			2015		
	UK £m	International £m	Total £m	UK £m	International £m	Total £m
Additions to property, plant and equipment and intangible assets (excluding goodwill)	624.9	20.0	644.9	544.4	33.4	577.8
Depreciation and amortisation	531.9	30.9	562.8	490.8	32.0	522.8
Impairment and asset write-offs	60.8	98.8	159.6	36.0	35.3	71.3
Total assets	8,062.3	414.1	8,476.4	7,763.2	432.9	8,196.1
Non-current assets	6,751.9	263.1	7,015.0	6,424.0	317.1	6,741.1

NOTES TO THE FINANCIAL STATEMENTS
 CONTINUED

3 EXPENSE ANALYSIS

	2016 Total £m	2015 Total £m
Revenue	10,555.4	10,311.4
Cost of sales	(6,427.0)	(6,325.9)
Gross profit	4,128.4	3,985.5
Selling and administrative expenses	(3,412.9)	(3,304.8)
Other operating income	69.4	81.8
Underlying operating profit	784.9	762.5
Non-underlying items (see note 5)	(200.8)	(61.2)
Operating profit	584.1	701.3

The selling and administrative expenses excluding non-underlying items are further analysed below:

	2016 Total £m	2015 Total £m
Employee costs ¹	1,435.7	1,360.7
Occupancy costs	723.2	709.0
Repairs, renewals and maintenance of property	99.5	104.9
Depreciation, amortisation and underlying asset impairments and write-offs	576.8	550.1
Other costs	577.7	580.1
Selling and administrative expenses	3,412.9	3,304.8

1. There are an additional £51.0m (last year £45.5m) of employee costs recorded within cost of sales. These costs are included within note 10A.

4 PROFIT BEFORE TAXATION

The following items have been included in arriving at profit before taxation:

	2016 £m	2015 £m
Net foreign exchange losses/(gains)	6.9	(12.7)
Cost of inventories recognised as an expense	5,778.6	5,746.2
Depreciation of property, plant, and equipment		
– owned assets	412.7	396.8
– under finance leases	1.4	3.3
Amortisation of intangible assets	148.7	122.7
(Profit)/loss on property disposals	(0.6)	2.3
Impairments and write-offs of assets	159.6	71.3
Operating lease rentals payable		
– property	337.1	318.8
– fixtures, fittings and equipment	3.5	2.8

Included in administrative expenses is the auditor's remuneration, including expenses for audit and non-audit services, payable to the Company's auditor Deloitte LLP and its associates as follows:

	2016 £m	2015 £m
Annual audit of the Company and the consolidated financial statements	0.7	0.7
Audit of subsidiary companies	0.7	0.6
Audit-related assurance services	0.2	0.2
Total audit and audit-related assurance services fees	1.6	1.5
Tax compliance services	–	0.1
Other services	0.1	0.4
Total other services	0.1	0.5

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

5 NON UNDERLYING ITEMS

In order to provide shareholders with a measure of the true underlying performance of the business and to allow a more understandable assessment of its position, the Group makes certain adjustments to the reported profit before tax. These adjustments for non-underlying items are made in accordance with the Group's accounting policy and are one-off in nature, material by size and are considered to be distortive of the true underlying performance of the business.

The total non-underlying items reported for the 53 week period ended 2 April 2016 is a net charge of £200.8m. The adjustments made to reported profit before tax to arrive at underlying profit are:

	Notes	2016 £m	2015 £m
Net M&S Bank charges incurred in relation to the insurance mis-selling provision		(50.3)	(13.8)
Restructuring credits/(costs)	15,22	9.2	(4.6)
UK store review	15,22	(26.7)	–
UK one-off impairment costs		(23.7)	–
International – store closure costs and impairments	15,22	(31.6)	(37.2)
International – impairment of goodwill	14	(19.1)	–
International – other impairments	14,15	(51.7)	–
Profit/(loss) on property disposal and impairment following a commitment being made to close stores	15,22	(10.3)	(6.9)
IAS 39 Fair value movement of embedded derivative	21	(2.0)	1.3
Net gain on acquisition of joint venture holding Bradford warehouse	25	5.4	–
Adjustment to profit before tax		(200.8)	(61.2)

Net M&S Bank charges incurred in relation to the insurance mis-selling provision

The Group has an economic interest in M&S Bank, a wholly owned subsidiary of HSBC, by way of a Relationship Agreement that entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. The Group does not share in any losses of M&S Bank and is not obliged to refund any fees received from HSBC although future income may be impacted by significant one-off deductions.

Since the year ended 31 December 2012, M&S Bank has recognised, in its audited financial statements, an estimated liability for redress to customers in respect of possible mis-selling of financial products. The Group's fee income from M&S Bank has been reduced by the deduction of this estimated liability in both the current and prior years. The total charge to date for the deduction in the Group's fee income is £189.4m. The deduction in the period is £50.3m.

On 26 September 2014, the Group reached agreement with M&S Bank and HSBC over a number of issues in connection with the Relationship Agreement (including the extent of historical mis-selling charges). This resulted in an ex gratia payment to the Group of £40.0m by HSBC which was recognised as a non-underlying credit in the prior period (net of £0.1m legal fees).

Restructuring credits/(costs)

The £9.2m restructuring credit in the year relates primarily to the Group's ongoing strategy to transition to a single tier distribution network and the closure costs of the legacy logistics sites. The net credit in the year arises due to an updated view of the site closure proposals (which has resulted in the retention of some sites initially announced for closure), an updated view of the estimated costs associated with closure and the successful assignment of a lease that had initially been provided for as onerous.

UK store review

The UK store review relates to a strategic multi-year programme which was announced during the year. As part of this programme, nine UK stores have been closed in the period resulting in charges of £26.7m being incurred. These charges relate to dilapidations and sublet shortfalls, accelerated depreciation of fixtures and fittings, impairments of land and buildings and redundancy costs.

UK one-off impairment costs

As part of the ongoing review of the Clothing & Home business, significant changes in both the trading strategy and the store ranging strategy were made. As a result of these changes, elements of the new buying and merchandising systems will no longer be used and as a result investment in these elements of the system have been written off, resulting in a one-off charge of £23.7m.

International – store closure costs and impairments

The international store impairment tests during the year have identified a number of stores across the portfolio where current and anticipated future performance will not support the carrying value of the stores. As a result, one-off impairment charges of £21.9m have been incurred, primarily in Western Europe and Asia.

Closure costs of £6.5m were incurred on the exit of stores, primarily in the Balkans region. In addition, separately capitalised staffing costs of £3.2m relating to property and store design projects for closed/impaired international stores have been written off during the year.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

5 NON UNDERLYING ITEMS CONTINUED

International – impairment of goodwill

Goodwill arising on business combinations is not amortised but is reviewed for impairment annually, or more frequently if indicators of impairment are identified. The goodwill impairment test involves an assessment of the carrying value relative to the value in use of the CGU (calculated using the three year plans reviewed by the Board). Where the carrying value exceeds the value in use an impairment charge is recognised. During the year indicators of impairment have been identified in respect of both the Czech Group and the Hungarian businesses.

The performance of the Czech Group during the year has been heavily impacted by challenging trading conditions and weakening currencies. These have had a detrimental impact on the business' ability to improve profitability year-on-year. As a result, the future cash flows of the business no longer support the carrying value of the goodwill resulting in a full impairment of the goodwill balance of £15.8m.

The Hungarian retail market has been impacted by challenging trading conditions resulting in a decrease in gross profit and reduced expectations of future growth. As a result, the future cash flows of the business no longer support the carrying value of the goodwill resulting in a full impairment of the goodwill balance of £3.3m.

International – other impairments

The M&S Mode brand was acquired in 2011 giving the Group the right to use the M&S brand in certain European markets. The valuation of this asset is supported by the cash flows of both owned and franchised European businesses. The deterioration in the current year trading performance across several of these markets (most notably Greece, France, the Czech Group and Hungary) and the consequential impact on expected future year cash flows have resulted in the carrying value of the brand no longer being supportable. As a result a full impairment of £32.4m has been recognised in the year.

E-SAP is an enterprise management system used solely by owned businesses in Greece, the Czech Group and Hungary. As highlighted above, the expected future cash flows of these countries have been impacted by challenging trading conditions and weakening currencies. There are no plans to implement E-SAP across other international territories. As a result, the cash flows can no longer support the carrying value of the E-SAP system and an impairment charge of the full £19.3m has been recognised in the year.

Profit/(loss) on property disposal and impairment following a commitment being made to close stores

During the year the Group recognised a net profit of £0.6m on the disposal of stores in Hartlepool, Harlow and Gloucester.

As a result of historic store closures, the Group has a small non-operating portfolio of properties. The strategy is to market the properties for sale (or lease assignment) or to explore sub-let opportunities where a sale or assignment is not achievable. A detailed review of the realisable value of these assets has been performed during the year which has identified a one-off charge of £10.9m.

IAS 39 Fair value movement of embedded derivative

The embedded derivative arose in respect of a lease contract for the Bradford distribution warehouse held within the Lima (Bradford) S.à r.l. joint venture. The lease contained both a rental increase cap and floor resulting in an embedded derivative being recognised in the Statement of Financial Position and fair valued each reporting period. The fair value movement in the derivative during the period until acquisition was £2.0m.

Net gain on acquisition of joint venture holding Bradford warehouse

On 29 February 2016, the Group purchased the remaining 50% of the Lima (Bradford) S.à r.l. joint venture for cash consideration of £56.2m. In accordance with IFRS 3 'Business Combinations' this acquisition was treated as a stepped acquisition resulting in a one-off fair value gain of £27.1m.

Following the Group's acquisition, the embedded derivative in respect of the lease contract for the warehouse (see note above 'IAS 39 Fair value movement of embedded derivative') has been derecognised from the Statement of Financial Position, resulting in a one-off cost of £21.7m.

Refer to note 25 for more detail on this business combination.

6 FINANCE INCOME/COSTS

	2016 £m	2015 £m
Bank and other interest receivable	5.8	5.0
Pension net finance income (see note 11)	15.3	10.5
Finance income	21.1	15.5
Interest on bank borrowings	(3.6)	(3.3)
Interest payable on syndicated bank facility	(5.5)	(6.4)
Interest payable on medium-term notes	(89.9)	(88.1)
Interest payable on finance leases	(1.9)	(2.0)
Unwind of discount on financial instruments	(0.4)	(0.6)
Unwind of discount on provisions (see note 22)	(0.4)	(0.3)
Unwind of discount on partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(14.7)	(16.1)
Finance costs	(116.4)	(116.8)
Net finance costs	(95.3)	(101.3)

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

7 INCOME TAX EXPENSE

A. Taxation charge

	2016 £m	2015 £m
Current tax		
UK corporation tax on profits for the year at 20% (last year 21%)		
– current year	111.6	106.5
– adjustments in respect of prior years	(5.6)	(7.5)
UK current tax	106.0	99.0
Overseas current taxation		
– current year	12.4	12.3
– adjustments in respect of prior years	(0.5)	(3.0)
Total current taxation	117.9	108.3
Deferred tax		
– origination and reversal of temporary differences	(28.3)	5.8
– adjustments in respect of prior years	2.6	4.5
– changes in tax rate	(7.8)	(0.3)
Total deferred tax (see note 23)	(33.5)	10.0
Total income tax expense	84.4	118.3

B. Taxation reconciliation

The effective tax rate was 17.3% (last year 19.7%) and is reconciled below:

	2016 £m	2015 £m
Profit before tax	488.8	600.0
Notional taxation at standard UK corporation tax rate of 20% (last year 21%)	97.8	126.0
Depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	2.3	5.3
Other income and expenses that are not taxable or allowable for tax purposes	(9.6)	(9.9)
Recalculation of deferred tax balances due to the change in statutory UK tax rates	(7.8)	(0.3)
Overseas profits taxed at rates different to those of the UK	(4.3)	(7.9)
Overseas tax losses where there is no relief anticipated in the foreseeable future	3.7	4.8
Adjustments to current and deferred tax charges in respect of prior periods	(3.5)	(6.1)
Adjustments to underlying profit:		
– depreciation and other amounts in relation to fixed assets that do not qualify for tax relief	2.6	–
– international store review charges where no tax relief is available	15.3	7.7
– (profits)/losses on property disposals	(1.5)	(1.3)
– acquisition of Lima (Bradford) S.à r.l. joint venture	(5.4)	–
– recalculation of deferred tax balances due to change in statutory UK tax rates	–	0.1
– overseas profits taxed at rates different to those of the UK	(5.2)	(0.1)
Total income tax expense	84.4	118.3

After excluding non-underlying items the underlying effective tax rate was 17.2% (last year 18.9%).

On 18 November 2015, the Finance Bill received Royal Assent and so the previously announced reductions in the rate of corporation tax to 19% from 1 April 2017 and 18% from 1 April 2020 were enacted. The Group has remeasured its UK deferred tax assets and liabilities at the end of the reporting period at the rates of 20%, 19% and 18% based on an expectation of when those balances are expected to unwind. This has resulted in the recognition of a deferred tax credit of £7.6m in the income statement and the recognition of a deferred tax credit of £20.9m in other comprehensive income. Also included in the total deferred tax credit above of £7.8m is £0.2m relating to rate changes in Slovakia.

On 16 March 2016, the Chancellor of the Exchequer announced that the planned reduction to 18% from 1 April 2020 would instead be a reduction to 17%. The Finance Bill was not substantively enacted at the year end date therefore the Group has not recognised the one-off impact of remeasuring balances from 18% to 17%. However, if 17% was applied, it is estimated that this would result in a further deferred tax credit of £3.5m in the income statement and the recognition of a further deferred tax credit of £9.6m in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
 CONTINUED

7 INCOME TAX EXPENSE CONTINUED

C Current tax reconciliation

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

	2016 £m	2015 £m
Profit before taxation	488.8	600.0
Notional taxation at standard UK corporation tax rate of 20% (last year: 21%)	97.8	126.0
Disallowable accounting depreciation and other similar items	85.4	86.1
Deductible capital allowances	(71.5)	(76.9)
Allowable deductions for employee share schemes	(3.4)	(10.2)
Allowable deductions for employee pension schemes	(13.4)	(15.6)
Overseas profits taxed at rates different to those of the UK	(4.3)	(5.7)
Overseas tax losses where there is no immediate relief	3.7	4.8
Other income and expenses that are not taxable or allowable	7.6	1.9
Adjustments to underlying profit:		
- international store review charges where no tax relief is available	21.0	7.7
- (profits)/losses on property disposals	(0.5)	0.5
- UK property and investment deductions where no tax relief is available	7.5	0.6
- acquisition of Lima (Bradford) S.à r.l. joint venture	(5.4)	-
- embedded derivative	4.7	(0.3)
- overseas profits taxed at rates different to those of the UK	(5.2)	(0.1)
Current year current tax charge	124.0	118.8
 Represented by:		
UK current year current tax	111.6	106.5
Overseas current year current tax	12.4	12.3
	124.0	118.8
UK adjustments in respect of prior years	(5.6)	(7.5)
Overseas adjustments in respect of prior years	(0.5)	(3.0)
Total current taxation (note 7A)	117.9	108.3

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

8 EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on earnings after tax and the weighted average number of ordinary shares in issue during the year.

The underlying earnings per share figures have also been calculated based on earnings before items that are one-off in nature, material by size and are considered to be distortive of the true underlying performance of the 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 four classes of dilutive potential ordinary shares being those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year, unvested shares granted under the Deferred Share Bonus Plan, unvested shares granted under the Restricted Share Plan and unvested shares within the Performance Share Plan that have met the relevant performance conditions at the end of the reporting period.

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

	2016 £m	2015 £m
Profit attributable to equity shareholders of the Company	406.9	486.5
Add/(Less) (net of tax):		
Net M&S Bank charges incurred in relation to the insurance mis-selling provision	40.2	10.9
Restructuring credits/(costs)	(7.3)	3.9
UK store review	21.7	—
UK one-off impairment costs	19.0	—
International – store closure costs and impairments	25.2	36.6
International – impairment of goodwill	19.1	—
International – other impairments	47.8	—
Profit/(loss) on property disposal and impairment following a commitment being made to close stores	8.8	4.3
IAS 39 Fair value movement of embedded derivative	1.6	(1.0)
Net gain on acquisition of joint venture holding Bradford warehouse	(9.7)	—
Underlying profit attributable to equity shareholders of the Company	573.3	541.2

	Million	Million
Weighted average number of ordinary shares in issue	1,635.9	1,635.6
Potentially dilutive share options under Group's share option schemes	6.3	11.3
Weighted average number of diluted ordinary shares	1,642.2	1,646.9

	Pence	Pence
Basic earnings per share	24.9	29.7
Diluted earnings per share	24.8	29.5
Underlying basic earnings per share	35.0	33.1
Underlying diluted earnings per share	34.9	32.9

9 DIVIDENDS

	2016 per share	2015 per share	2016 £m	2015 £m
Dividends on equity ordinary shares				
Paid final dividend	11.6p	10.8p	190.8	176.2
Paid interim dividend	6.8p	6.4p	110.9	104.5
	18.4p	17.2p	301.7	280.7

The directors have proposed a final dividend in respect of the year ended 2 April 2016 of 11.9p per share (last year 11.6p) amounting to a dividend of £192.6m (last year £190.8m). The payment is subject to approval at the Annual General Meeting, to be held on 12 July 2016.

In addition, the Board have declared the payment of a Special dividend of 4.6p per share amounting to a dividend of c. £75m. Both the Special and the Final dividends will be paid on 15 July 2016 to the shareholders on the register of members as at close of business on 3 June 2016. In line with the requirements of IAS 10 – 'Events after the reporting period', these dividends have not been recognised within these results.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. The shares will go ex-dividend on 2 June 2016. For those shareholders electing to receive the DRIP the last date for receipt of a new election is 24 June 2016.

The Group has a progressive dividend policy with dividends covered broadly twice by earnings as explained in the Financial Review on page 23.

NOTES TO THE FINANCIAL STATEMENTS
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10 EMPLOYEES

A. Aggregate remuneration

The aggregate remuneration and associated costs of Group employees (including executive directors) were:

	2016 Total £m	2015 Total £m
Wages and salaries	1,278.8	1,224.3
Social security costs	80.6	80.9
Pension costs (see note 11)	102.0	85.4
Share-based payments (see note 13)	16.0	(1.1)
Employee welfare and other personnel costs	46.7	49.7
Capitalised staffing costs	(37.4)	(33.0)
Total aggregate remuneration	1,486.7	1,406.2

Details of key management compensation are given in note 29.

B. Average monthly number of employees

	2016	2015
UK stores		
– management and supervisory categories	5,696	5,516
– other	63,733	64,182
UK head office		
– management and supervisory categories	3,191	3,055
– other	881	866
UK operations		
– management and supervisory categories	257	225
– other	1,127	835
Overseas	8,063	8,390
Total average number of employees	82,948	83,069

If the number of hours worked was converted on the basis of a normal working week, the equivalent average number of full-time employees would have been 58,895 (last year 59,096).

11 RETIREMENT BENEFITS

The Group provides pension arrangements for the benefit of its UK employees through the Marks & Spencer UK Pension Scheme (a defined benefit arrangement which was closed to new entrants with effect from 1 April 2002) and Your M&S Pension Saving Plan (a defined contribution arrangement which has been open to new members with effect from 1 April 2003).

The defined contribution plan is a pension plan under which the Group pays contributions to an independently administered fund – such contributions are based upon a fixed percentage of employees' pay. The Group has no legal or constructive obligations to pay further contributions to the fund once the contributions have been paid. Members' benefits are determined by the amount of contributions paid by the Group and the member, together with the investment returns earned on the contributions arising from the performance of each individual's investments and how each member chooses to receive their retirement benefits. As a result, actuarial risk (that benefits will be lower than expected) and investment risk (that assets invested in will not perform in line with expectations) fall on the employee.

The defined benefit arrangement operates on a final salary basis and at the year end had 11,176 active members (last year 11,899), 53,589 deferred members (last year 54,314) and 51,047 pensioners (last year 51,114). At the year end, the defined contribution arrangement had 40,712 active members (last year 37,570) and 8,823 deferred members (last year 6,135). The scheme is governed by a trustee board which is independent of the Group.

The Group also operates a small funded defined benefit pension scheme in the Republic of Ireland. This scheme closed to future accrual from 31 October 2013. Retirement benefits also include a UK post-retirement healthcare scheme and unfunded retirement benefits.

NOTES TO THE FINANCIAL STATEMENTS
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11 RETIREMENT BENEFITS CONTINUED

Within the total Group retirement benefit cost of £86.7m (last year £74.9m), £41.0m (last year £33.7m) relates to the UK defined benefit scheme, £40.3m (last year £36.4m) to the UK defined contribution scheme and £5.4m (last year £4.8m) to other retirement benefit schemes.

The most recent actuarial valuation of the Marks & Spencer UK Pension Scheme was carried out at 31 March 2015 and showed a funding surplus of £204m. The valuation is based on the same methodology adopted for the 2012 valuation but incorporates the latest asset values and revised assumptions. The Company and Trustees have agreed to continue with the current strategy to de-risk over the long term, with no change to the agreed additional cash contributions due to be paid into the scheme in respect of benefits already accrued by members. This meant that the Group paid an additional contribution of £28m in March 2016 and will pay a further £28m by 31 March 2017. In addition, it was agreed that ongoing contributions paid into the scheme to cover future benefits earned by members will increase from 23.4% to 34.3% of pensionable salaries.

By funding its defined benefit pension schemes, the Group is exposed to the risk that the cost of meeting its obligations is higher than anticipated. This could occur for several reasons, for example:

- Investment returns on the schemes' assets may be lower than anticipated, especially if falls in asset values are not matched by similar falls in the value of the schemes' liabilities.
- The level of price inflation may be higher than that assumed, resulting in higher payments from the schemes.
- Scheme members may live longer than assumed, for example due to unanticipated advances in medical healthcare. Members may also exercise (or not exercise) options in a way that lead to increases in the schemes' liabilities, for example through early retirement or commutation of pension for cash.
- Legislative changes could also lead to an increase in the schemes' liabilities.

In addition, the Group has an obligation to the UK defined benefit scheme via the interest in the Scottish Limited Partnership (refer to note 12), through which the Group is exposed to additional risks. In particular, under the legal terms of the Partnership, a default by the Group on the rental payments to the Partnership or a future change in legislation could trigger earlier or higher payments to the Pension Scheme, or an increase in the collateral to be provided by the Group.

A. Pensions and other post-retirement liabilities

	2016 £m	2015 £m
Total market value of assets	8,515.3	8,596.5
Present value of scheme liabilities	(7,682.3)	(8,135.8)
Net funded pension plan asset	833.0	460.7
Unfunded retirement benefits	(0.9)	(0.7)
Post-retirement healthcare	(8.0)	(11.0)
Net retirement benefit asset	824.1	449.0

Analysed in the statement of financial position as:

Retirement benefit asset	851.0	460.7
Retirement benefit deficit	(26.9)	(11.7)
Net retirement benefit asset	824.1	449.0

The asset recognised for the UK defined benefit scheme is based on the assumption that the full surplus will ultimately be available to the Group as a future refund of surplus.

B. Financial assumptions

The financial assumptions for the UK defined benefit 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:

	2016 %	2015 %
Rate of increase in salaries	1.0	1.0
Rate of increase in pensions in payment for service	1.9-3.0	1.9-3.0
Discount rate	3.40	3.10
Inflation rate	2.95	3.10
Long-term healthcare cost increases	6.95	7.10

The inflation rate of 2.95% (last year 3.10%) reflects the Retail Price Index (RPI) rate. Certain benefits have been calculated with reference to the Consumer Price Index (CPI) as the inflationary measure and in these instances a rate of 1.95% (last year 2.10%) has been used.

NOTES TO THE FINANCIAL STATEMENTS
 CONTINUED

11 RETIREMENT BENEFITS CONTINUED

C. Demographic assumptions

The demographic assumptions are in line with those adopted for the last formal actuarial valuation of the scheme performed as at 31 March 2015. The post-retirement mortality assumptions are based on an analysis of the pensioner mortality trends under the scheme for the period to March 2015. The specific mortality rates used are based on the VITA tables. The life expectancies underlying the valuation are as follows:

		2016	2015
Current pensioners (at age 65)	- males	23.1	22.7
	- females	24.6	24.4
Future pensioners – currently in active status (at age 65)	- males	23.6	22.4
	- females	26.2	25.1
Future pensioners – currently in deferred status (at age 65) – males		24.1	23.2
	- females	26.4	26.0

D. Sensitivity analysis

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

	2016	2015
	£m	£m
Decrease in scheme surplus caused by a decrease in the discount rate of 0.25%	(90.0)	(70.0)
Increase in scheme surplus caused by a decrease in the inflation rate of 0.25%	20.0	30.0
Increase in scheme surplus caused by a decrease in the average life expectancy of one year	300.0	330.0

The sensitivity analysis above is based on a change in one assumption while holding all others constant. Therefore interdependencies between the assumptions have not been taken into account within the analysis.

E. Analysis of assets

The investment strategy of the UK defined benefit scheme is driven by its liability profile, including its inflation-linked pension benefits. In addition to its interest in the Scottish Limited Partnership (refer to note 12), the scheme invests in different types of bonds (including corporate bonds and gilts) and derivative instruments (including inflation, interest rate, cross-currency and total return swaps) in order to align movements in the value of its assets with movements in its liabilities arising from changes in market conditions. Broadly the scheme has hedging that covers 90% of interest rate movements and 85% of inflation movements, as measured on the Trustees' funding assumptions which use a discount rate derived from gilt yields.

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

	2016	2015
	£m	£m
Debt investments		
- government bonds net of repurchase agreements ¹	4,165.7	4,180.0
- corporate bonds	1,058.2	1,211.0
- asset backed securities and structured debt	459.0	363.9
Scottish Limited Partnership interest (see note 12)	469.5	531.3
Equity investments – quoted	1,047.5	1,131.8
Equity investments – unquoted	236.7	178.0
Property	420.7	327.1
Derivatives		
- interest and inflation rate swap contracts	(101.5)	(127.5)
- foreign exchange contracts and other derivatives	142.0	190.9
Hedge and reinsurance funds	317.9	313.6
Cash and cash equivalents	190.5	306.2
Other	109.1	(9.8)
	8,515.3	8,596.5

1. Repurchase agreements were £1,333.0m (last year £805.0m).

The fair values of the above equity and debt investments are determined based on publicly available market prices wherever available. Unquoted investments, hedge funds and reinsurance funds are stated at fair value estimates provided by the manager of the investment or fund. Property includes both quoted and unquoted investments. The market value of the Scottish Limited Partnership interest is based on the expected cash flows and benchmark asset-backed credit spreads. It is the policy of the Scheme to hedge a proportion of interest rate and inflation risk. The Scheme reduces its foreign currency exposure using forward foreign exchange contracts.

At year end, the UK defined benefit scheme indirectly held 169,509 (last year 199,032) ordinary shares in the Company through its investment in UK Equity Index Funds.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

11 RETIREMENT BENEFITS CONTINUED

F. Analysis of amounts charged against profits

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

	2016 £m	2015 £m
Current service cost	98.0	82.4
Administration costs	3.0	2.0
Past service costs – curtailment charge	1.0	1.0
Net interest income	(15.3)	(10.5)
Total	86.7	74.9

Remeasurement on the net defined benefit surplus:

– actual return on scheme assets excluding amounts included in net interest income	156.3	(1,722.4)
– actuarial gain – experience	(164.8)	(33.7)
– actuarial loss – demographic assumptions	100.8	83.9
– actuarial (gain)/loss – financial assumptions	(438.5)	1,478.5
Components of defined benefit gain recognised in other comprehensive income	(346.2)	(193.7)

G. Scheme assets

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

	2016 £m	2015 £m
Fair value of scheme assets at start of year	8,596.5	6,729.4
Interest income based on discount rate	262.4	293.0
Actual return on scheme assets excluding amounts included in net interest income ¹	(156.3)	1,722.4
Employer contributions	118.4	143.0
Benefits paid	(311.7)	(276.5)
Administration costs	(3.0)	(2.0)
Exchange movement	9.0	(12.8)
Fair value of scheme assets at end of year	8,515.3	8,596.5

1. The actual return on scheme assets was a gain of £106.1m (last year gain of £2,015.4m).

H. Pensions and other post-retirement liabilities

Changes in the present value of retirement benefit obligations are as follows:

	2016 £m	2015 £m
Present value of obligation at start of year	8,147.5	6,540.4
Current service cost	98.0	82.4
Curtailment charge	1.0	1.0
Interest cost	247.1	282.5
Benefits paid	(311.7)	(276.5)
Actuarial gain – experience	(164.8)	(33.7)
Actuarial loss – demographic assumptions	100.8	83.9
Actuarial (gain)/loss – financial assumptions	(438.5)	1,478.5
Exchange movement	11.8	(11.0)
Present value of obligation at end of year	7,691.2	8,147.5
Analysed as:		
Present value of pension scheme liabilities	7,682.3	8,135.8
Unfunded pension plans	0.9	0.7
Post-retirement healthcare	8.0	11.0
Present value of obligation at end of year	7,691.2	8,147.5

The average duration of the defined benefit obligation at 2 April 2016 is 18 years (last year 18 years).

NOTES TO THE FINANCIAL STATEMENTS
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12 MARKS AND SPENCER SCOTTISH LIMITED PARTNERSHIP

Marks and Spencer plc is a general partner and the Marks & Spencer UK Pension Scheme is a limited partner of the Marks and Spencer Scottish Limited Partnership (the Partnership). As such, the Partnership is consolidated into the results of the Group.

The Partnership holds £1.6bn (last year £1.6bn) of properties which have been leased back to Marks and Spencer plc. The Group retains control over these properties, including the flexibility to substitute alternative properties into the partnership. 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.

The Partnership liability to the Marks & Spencer UK Pension Scheme of £455.7m (last year £512.9m) is valued at the net present value of the future expected distributions from the Partnership to the Marks & Spencer UK Pension Scheme as limited partner.

During the year to 2 April 2016 an interest charge of £14.7m (last year £16.1m) was recognised in the income statement representing the unwind of the discount included in this obligation.

Under IAS 19, the Partnership interest of the Pension Scheme in the Marks and Spencer Scottish Limited Partnership is included within the UK pension scheme assets, valued at £469.5m (last year £531.3m), refer to note 11E.

13 SHARE-BASED PAYMENTS

This year a charge of £16.0m was recognised for share-based payments (last year credit of £1.1m). Of the total share-based payments charge £9.5m (last year £9.0m) relates to the Save As You Earn Share Option scheme and a charge of £1.1m (last year credit of £15.0m) relates to Performance Share Plans. The remaining charge of £5.4m (last year £4.9m) 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 50 to 71.

A. Save As You Earn Scheme

Sharesave, the Company's Save As You Earn (SAYE) Scheme, was approved by shareholders at the 2007 AGM. Under the terms of the scheme, the Board may offer options to purchase ordinary shares in the Company once in each financial year to those employees who enter into Her Majesty's Revenue & Customs (HMRC) approved SAYE savings contract. The Company has chosen to cap the maximum monthly saving amount at £250 which is below the £500 per month allowed under HMRC Approved Schemes. The price at which options may be offered is 80% of the average mid-market price for three consecutive dealing days preceding the offer date. The options may normally be exercised during the six month period after the completion of the SAYE contract.

	2016	2015		
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the year	29,530,523	357.6p	34,423,922	311.6p
Granted	10,437,215	432.0p	14,389,736	369.0p
Exercised	(6,645,922)	302.6p	(14,602,805)	256.8p
Forfeited	(2,967,697)	382.5p	(4,485,417)	371.5p
Expired	(199,572)	317.2p	(194,913)	302.8p
Outstanding at end of year	30,154,547	393.3p	29,530,523	357.6p
Exercisable at end of year	1,936,860	315.3p	1,352,847	268.7p

For SAYE share options exercised during the period, the weighted average share price at the date of exercise was 443.9p (last year 471.8p).

The fair values of the options granted during the year have been calculated using the Black-Scholes model assuming the inputs shown below:

	2016	2015
	3-year plan	3-year plan
Grant date	Nov 15	Nov 14
Share price at grant date	520p	460p
Exercise price	432p	369p
Option life in years	3 years	3 years
Risk-free rate	0.9%	0.9%
Expected volatility	23.4%	23.6%
Expected dividend yield	3.7%	3.9%
Fair value of option	96p	91p

Volatility has been estimated by taking the historic volatility in the Company's share price over a three-year period.

The resulting fair value is expensed over the service period of three years on the assumption that 10% (last year 10%) of options will lapse over the service period as employees leave the Group.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

13 SHARE-BASED PAYMENTS CONTINUED

Outstanding options granted under the UK Employees SAYE Scheme are as follows:

Options granted	Number of options		Weighted average remaining contractual life (years)		Option price
	2016	2015	2016	2015	
January 2012	—	1,335,181	—	0.3	258p
January 2013	1,917,252	7,499,742	0.2	1.3	312p
January 2014	5,918,608	6,652,869	1.2	2.3	405p
January 2015	12,334,645	14,042,731	2.2	3.3	369p
January 2016	9,984,042	—	3.2	—	432p
	30,154,547	29,530,523	2.3	2.4	393p

B. Performance Share Plan*

The Performance Share Plan is the primary long-term incentive plan for approximately 150 of the most senior managers within the Group. It was first approved by shareholders at the 2005 AGM and re-approved at the 2015 AGM. Under the Plan, annual awards, based on a percentage of salary, may be offered. The extent to which an award vests is measured over a three-year period against a balanced scorecard of financial measures which for 2015/16 included Earnings Per Share (EPS), Return on Capital Employed (ROCE) and Revenue. The value of any dividends earned on the vested shares during the three years will also be paid on vesting. Further details are set out in the Remuneration Report on pages 50 to 71. Awards under this scheme have been made in each year since 2005.

During the year, 5,850,134 shares (last year 7,338,609) were awarded under the Plan. The weighted average fair value of the shares awarded was 533.2p (last year 439.3p). As at 2 April 2016, 15,749,605 shares (last year 18,805,388) were outstanding under the scheme.

C. Deferred Share Bonus Plan*

The Deferred Share Bonus Plan was introduced in 2005/06 as part of the Annual Bonus Scheme for approximately 500 of the most senior managers within the Group. As part of the scheme, the managers are required to defer a proportion of any bonus paid into shares which will be held for three years. There are no further performance conditions on these shares, other than continued employment within the Group and the value of any dividends earned during the deferred period will also be paid on vesting.

During the year, 1,044,961 shares (last year 20,822) have been awarded under the Plan in relation to the annual bonus. The fair value of the shares awarded was 548.3p (last year 437.0p). As at 2 April 2016, 2,586,096 shares (last year 2,487,477) 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 vest at the end of the restricted period (typically between one and three years) subject to the participant still being in employment of the Group on the relevant vesting date. The value of any dividends earned during the restricted period will also be paid at the time of vesting.

During the year, 221,681 shares (last year 1,001,076) have been awarded under the Plan. The weighted average fair value of the shares awarded was 454.4p (last year 450.5p). As at 2 April 2016, 1,285,666 shares (last year 1,963,139) were outstanding under the scheme.

E. Republic of Ireland Save As You Earn Scheme

Sharesave, the Company's Save As You Earn Scheme was introduced in 2009 to all employees in the Republic of Ireland for a ten-year period, after approval by shareholders at the 2009 AGM. The scheme is subject to Irish Revenue rules which limit the maximum monthly saving to €500 per month. The Company chose in 2009 to set a monthly savings cap of €320 per month to align the maximum savings amount to that allowed within the UK scheme. 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, 160,113 options (last year 121,086) were granted, at a fair value of 95.6p (last year 90.8p). As at 2 April 2016, 312,826 options (last year 288,162) were outstanding under the scheme.

F. Marks and Spencer Employee Benefit Trust

The Marks and Spencer Employee Benefit Trust (the Trust) holds 4,087,837 (last year 3,912,120) shares with a book value of £20.6m (last year £19.1m) and a market value of £16.6m (last year £20.7m). These shares were acquired by the Trust in the market and are shown as a reduction in retained earnings in the consolidated statement of financial position. Awards are granted to employees at the discretion of Marks and Spencer plc and the Trust agrees to satisfy the awards in accordance with the wishes of Marks and Spencer plc under senior executive share schemes. Dividends are waived on all of these plans.

G. ShareBuy

In the current year, ShareBuy, the Company's new Share Incentive Plan was launched. This enables participants to buy shares directly from their gross salary. This scheme does not attract an IFRS 2 charge.

* Nil cost options. For the purposes of calculating the number of shares awarded, the share price used is the average of the mid-market price for the five consecutive dealing days preceding the grant date.

NOTES TO THE FINANCIAL STATEMENTS
 CONTINUED

14 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer software £m	Computer software under development £m	Total £m
At 29 March 2014					
Cost or valuation	129.6	112.4	878.6	118.4	1,239.0
Accumulated amortisation and impairment	(34.4)	(50.5)	(345.7)	–	(430.6)
Net book value	95.2	61.9	532.9	118.4	808.4
Year ended 28 March 2015					
Opening net book value	95.2	61.9	532.9	118.4	808.4
Additions	–	0.1	79.4	98.5	178.0
Transfers	–	–	130.1	(130.1)	–
Disposals	–	–	(1.4)	–	(1.4)
Asset write-offs	–	–	(2.4)	(1.2)	(3.6)
Amortisation charge	–	(5.3)	(117.4)	–	(122.7)
Exchange difference	0.1	–	(0.4)	(0.2)	(0.5)
Closing net book value	95.3	56.7	620.8	85.4	858.2
At 28 March 2015					
Cost or valuation	129.7	112.5	1,087.7	86.6	1,416.5
Accumulated amortisation, impairments and write-offs	(34.4)	(55.8)	(466.9)	(1.2)	(558.3)
Net book value	95.3	56.7	620.8	85.4	858.2
Year ended 2 April 2016					
Opening net book value	95.3	56.7	620.8	85.4	858.2
Additions	6.2	–	92.9	93.9	193.0
Transfers	–	–	91.2	(91.2)	–
Asset impairments	(19.1)	(32.5)	(22.1)	–	(73.7)
Asset write-offs	–	–	(11.9)	(14.5)	(26.4)
Amortisation charge	–	(5.3)	(143.4)	–	(148.7)
Exchange difference	0.3	(0.2)	0.2	0.1	0.4
Closing net book value	82.7	18.7	627.7	73.7	802.8
At 2 April 2016					
Cost or valuation	136.2	112.3	1,272.0	89.4	1,609.9
Accumulated amortisation, impairments and write-offs	(53.5)	(93.6)	(644.3)	(15.7)	(807.1)
Net book value	82.7	18.7	627.7	73.7	802.8

Goodwill and indefinite life intangibles relate to the following groups of cash generating units (CGUs):

	per una £m	Czech Group £m	India £m	UK ¹ £m	Hungary £m	Total goodwill £m	M&S Mode indefinite life intangible £m	Blue Harbour indefinite life intangible £m
Net book value at 28 March 2015	69.5	15.4	7.1	–	3.3	95.3	32.4	0.1
Additions	–	–	–	6.2	–	6.2	–	–
Exchange difference	–	0.4	(0.1)	–	–	0.3	–	–
Asset impairments	–	(15.8)	–	–	(3.3)	(19.1)	(32.4)	(0.1)
Net book value at 2 April 2016	69.5	–	7.0	6.2	–	82.7	–	–

1. The goodwill created on acquisition of the Lima (Bradford) S.à r.l. joint venture is supported by the UK retail business.

Acquisition in the year

On 29 February 2016, Marks and Spencer plc acquired the remaining 50% share in the joint venture, Lima (Bradford) S.à r.l. This company owned an automated distribution centre in Bradford that is used by the Group. The acquisition resulted in the recognition of £6.2m of goodwill, as a result of the consideration paid exceeding the fair value of the net assets acquired, attributable to the recognition of a deferred tax liability in relation to the property. On 29 February 2016 the distribution centre was transferred to Marks and Spencer (Bradford) Limited and on 1 March 2016 Lima (Bradford) S.à r.l. was put into liquidation. Refer to note 25 for further disclosures regarding this acquisition.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

14 INTANGIBLE ASSETS CONTINUED

Impairment testing

Goodwill is not amortised, but tested annually for impairment with the recoverable amount being determined from value in use calculations. Goodwill has been allocated for impairment testing purposes to groups of CGUs which include the combined retail and wholesale businesses for each location.

Brands include the per una brand cost of £80.0m (net book value £18.7m). The per una brand is a definite life intangible asset amortised on a straight line basis over a period of 15 years and is only assessed for impairment where such indicators exist. At the beginning of the year, the Group also held the M&S Mode brand at a cost of £32.4m. The M&S Mode brand was attributed an indefinite life as it gave the Group the future right to use the 'M&S' brand in certain countries across Europe. Similar to goodwill, the M&S Mode brand is assessed for impairment annually based on its value in use. The M&S Mode brand has been assessed for impairment across those European businesses.

The value in use calculations use cash flows based on budgets prepared by management covering a three-year period. These budgets have regard to historic performance and knowledge of the current market, together with management's views on the future achievable growth and the impact of committed initiatives. The cash flows which derive from the budgets include ongoing capital expenditure required to maintain the store network. Cash flows beyond this three-year period are extrapolated using a long-term growth rate to 10 years or perpetuity.

Other than the detailed budgets, the key assumptions in the value in use calculations are the long-term growth rate and the risk adjusted pre-tax discount rate. The long-term growth rate has been determined with reference to forecast CDP growth for the territories in which these businesses operate. Management believe this is the most appropriate indicator of long-term growth rates that is available. The long-term growth rate used is purely for the impairment testing of goodwill and brands under IAS 36 'Impairment of Assets' and does not reflect long-term planning assumptions used by the Group for investment proposals or for any other assessments. These growth rates do not exceed the long-term average growth rate for the Group's retail businesses. The pre-tax discount rate is based on the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made.

In the period the following impairment charges have been recognised (within non-underlying items) by the Group.

- The performance of the Czech Group during the year has been heavily impacted by challenging trading conditions and weakening currencies. These have impacted the business's ability to improve profitability year-on-year. As a result, the future cash flows of the business are no longer considered able to support the carrying value of the goodwill resulting in a full impairment of the goodwill balance of £15.8m. This asset was reported within the International segment.
- The Hungarian retail market has been impacted by challenging trading conditions resulting in a decrease in gross profit and reduced expectations of future growth. As a result, the future cash flows of the business no longer support the carrying value of the goodwill resulting in a full impairment of the goodwill balance of £3.3m being recognised in the International segment.
- The M&S Mode brand was acquired in 2011 giving the Group the right to use the M&S brand in European markets. The valuation of this asset is supported by the cash flows of both owned and franchised European businesses. The deterioration in the current year trading performance across several of these markets (most notably Greece, France, the Czech Group and Hungary) and the consequential impact on expected future year cash flows have resulted in the carrying value of the brand no longer being supportable. As a result a full impairment of £32.4m has been recognised in the year, also within the International segment.
- E-SAP is an enterprise management system used solely by the owned businesses in Greece, the Czech Republic and Hungary. As highlighted above, the expected future cash flows of these countries have been impacted by challenging trading conditions and weakening currencies. As a result, the cash flows can no longer support the carrying value of the E-SAP system and an impairment charge of £18.7m has been recognised in the year in intangibles (with an additional £0.6m in fixtures, fittings and equipment).
- As part of the ongoing review of the Clothing & Home business, significant changes in both the trading strategy and the store ranging strategy were made. As a result of these changes, two modules within the new supply chain management system will no longer be used and as a result investment in those modules has been written off, resulting in a one-off charge of £23.7m.

The values attributed to the key assumptions are as follows:

	Long-term growth rate		Pre-tax discount rate	
	2016 %	2015 %	2016 %	2015 %
per una	2.0	2.0	8.3	8.6
Czech Group	3.9	1.9	10.5	10.1
India	7.3	6.8	17.2	15.4
UK	1.9	–	10.5	–
Hungary	3.2	1.4	16.1	11.0

The M&S Mode brand is tested based on the regions operating in the European business which are covered under the brand rights acquired. The discount rates used to calculate value in use range from 12.9% to 30.2% (last year 9.3% to 27.9%). Cash flows beyond the three-year period have been extrapolated at long-term growth rates ranging from 0.0% to 3.5% (last year 1.0% to 4.0%).

Sensitivity analysis

Whilst management believe the assumptions are realistic it is possible that a further impairment would be identified for per una, UK or India if any of the above key assumptions were changed significantly. A sensitivity analysis has been performed on each of these key assumptions with other variables held constant. Management have concluded that there are no reasonably possible changes in any key assumptions that would cause the carrying amount of goodwill or brands to exceed the value in use.

NOTES TO THE FINANCIAL STATEMENTS
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15 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 29 March 2014				
Cost	2,871.7	6,686.8	256.2	9,814.7
Accumulated depreciation, impairments and write-offs	(332.0)	(4,336.8)	(6.0)	(4,674.8)
Net book value	2,539.7	2,350.0	250.2	5,139.9
Year ended 28 March 2015				
Opening net book value	2,539.7	2,350.0	250.2	5,139.9
Additions	19.0	213.0	167.8	399.8
Transfers	14.5	268.4	(282.9)	–
Disposals	(12.5)	(0.2)	–	(12.7)
Asset impairments	(13.3)	(35.4)	–	(48.7)
Asset write-offs	(1.0)	(6.6)	(11.4)	(19.0)
Depreciation charge	(14.8)	(385.1)	(0.2)	(400.1)
Exchange difference	(16.3)	(10.0)	(1.8)	(28.1)
Closing net book value	2,515.3	2,394.1	121.7	5,031.1
At 28 March 2015				
Cost	2,855.1	7,066.4	133.3	10,054.8
Accumulated depreciation, impairments and write-offs	(339.8)	(4,672.3)	(11.6)	(5,023.7)
Net book value	2,515.3	2,394.1	121.7	5,031.1
Year ended 2 April 2016				
Opening net book value	2,515.3	2,394.1	121.7	5,031.1
Additions	115.2	204.6	138.3	458.1
Transfers	1.7	186.8	(188.5)	–
Disposals	(5.0)	(0.6)	–	(5.6)
Asset impairments	(30.4)	(24.3)	(1.9)	(56.6)
Asset write-offs	–	(2.9)	–	(2.9)
Depreciation charge	(13.3)	(400.8)	–	(414.1)
Exchange difference	11.4	5.9	(0.2)	17.1
Closing net book value	2,594.9	2,362.8	69.4	5,027.1
At 2 April 2016				
Cost	2,981.6	7,476.3	82.9	10,540.8
Accumulated depreciation, impairments and write-offs	(386.7)	(5,113.5)	(13.5)	(5,513.7)
Net book value	2,594.9	2,362.8	69.4	5,027.1

The net book value above includes land and buildings of £42.6m (last year £42.7m) and equipment of £0.2m (last year £1.1m) where the Group is a lessee under a finance lease.

Additions to property, plant and equipment during the year amounting to £nil (last year £nil) were financed by finance leases.

16 OTHER FINANCIAL ASSETS

	2016 £m	2015 £m
Non-current		
Unlisted investments	3.0	3.0
Current		
Short-term investments ¹	19.1	11.6

1. Includes £3.6m (last year £1.2m) of money market deposits held by Marks and Spencer plc in an escrow account.

Non-current unlisted investments are carried as available-for-sale assets. Other financial assets are measured at fair value with changes in their value taken to the income statement.

NOTES TO THE FINANCIAL STATEMENTS
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17 TRADE AND OTHER RECEIVABLES

	2016 £m	2015 £m
Non-current		
Other receivables	12.9	56.8
Prepayments and accrued income	221.8	226.5
	234.7	283.3
Current		
Trade receivables	116.5	128.6
Less: provision for impairment of receivables	(0.7)	(4.9)
Trade receivables – net	115.8	123.7
Other receivables	50.4	53.3
Prepayments and accrued income	154.9	144.8
	321.1	321.8

Trade and other receivables that were past due but not impaired amounted to £19.6m (last year £18.5m) and are mainly sterling denominated. The directors consider that the carrying amount of trade and other receivables approximates their fair value. Included in prepayments and accrued income is £19.4m (last year £13.5m) of accrued supplier income relating to rebates which have been earned but not yet invoiced. Supplier income that has been invoiced but not yet settled against future trade creditor balances is included within trade creditors where there is a right to offset. The remaining amount is immaterial. The impact on inventory is immaterial as these rebates relate to food stock which has been sold through by the year end.

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are £247.6m (last year £205.9m). The carrying amount of these assets approximates their fair value.

The effective interest rate on short-term bank deposits is 0.51% (last year 0.48%). These deposits have an average maturity of 48 days (last year 42 days).

19 TRADE AND OTHER PAYABLES

	2016 £m	2015 £m
Current		
Trade and other payables	1,021.9	967.6
Social security and other taxes	49.8	57.7
Accruals and deferred income	546.0	617.1
	1,617.7	1,642.4
Non-current		
Other payables	353.0	319.7

20 BORROWINGS AND OTHER FINANCIAL LIABILITIES

	2016 £m	2015 £m
Current		
Bank loans and overdrafts ¹	297.1	278.9
Finance lease liabilities	0.4	0.5
	297.5	279.4
Non-current		
Bank loans	0.2	0.1
6.250% US\$500m medium-term notes 2017 ³	356.5	341.9
6.125% £400m medium-term notes 2019 ²	427.7	428.8
6.125% £300m medium-term notes 2021 ²	303.3	302.5
4.75% £400m medium-term notes 2025 ²	425.7	420.2
7.125% US\$300m medium-term notes 2037 ³	213.1	204.3
Finance lease liabilities	48.2	48.1
	1,774.7	1,745.9
Total	2,072.2	2,025.3

1. Bank loans and overdrafts include a £5.0m (last year £5.0m) loan from the Hedge End Park Limited joint venture (see note 29).

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.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

20 BORROWINGS AND OTHER FINANCIAL LIABILITIES CONTINUED

Finance leases

The minimum lease payments under finance leases fall due as shown in the table on the following page. It is the Group's policy to lease certain properties and equipment under finance leases. The average lease term for equipment is five years (last year six years) and 123 years (last year 124 years) for property. Interest rates are fixed at the contract rate. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent payments. The Group's obligations under finance leases are secured by the lessors' charges over the leased assets.

21 FINANCIAL INSTRUMENTS

Treasury policy

The Group operates a centralised treasury function to manage the Group's funding requirements and financial risks in line with the Board approved treasury policies and procedures, and their delegated authorities.

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations.

The Group treasury function also enters into derivative transactions, principally interest rate swaps, cross currency swaps and forward currency contracts. The purpose of these transactions is to manage the interest rate and foreign currency risks arising from the Group's operations and financing.

It remains the Group's policy not to hold or issue financial instruments for trading purposes, except where financial constraints necessitate the need to liquidate any outstanding investments. The treasury function is managed as a cost centre and does not engage in speculative trading.

Financial risk management

The principal financial risks faced by the Group are liquidity and funding, interest rate, foreign currency and counterparty risks. The policies and strategies for managing these risks are summarised on the following pages:

(a) Liquidity & funding risk

The risk that the Group could be unable to settle or meet its obligations at a reasonable price as they fall due:

- The Group's funding strategy ensures a mix of funding sources offering sufficient headroom, maturity and flexibility and cost effectiveness to match the requirements of the Group.
- Marks and Spencer plc is financed by a combination of retained profits, bank borrowings, medium-term notes and committed syndicated bank facilities.
- Operating subsidiaries are financed by a combination of retained profits, bank borrowings and intercompany loans.

During the financial year, the Group renegotiated its committed syndicated bank revolving credit facility. The new facility of £1.1bn is set to mature on 15 April 2021. 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 £100m (last year £100m), all of which are due to be reviewed within a year. At the balance sheet date a sterling equivalent of £205m (last year £225m) was drawn under the committed facilities and £30m (last year £nil) was drawn under the uncommitted facilities.

In addition to the existing borrowings, the Group has a Euro Medium Term note programme of £3bn, of which £1.1bn (last year £1.1bn) was in issuance as at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Financial risk management continued

(a) Liquidity & funding risk continued

The contractual maturity of the Group's non-derivative financial liabilities (excluding trade and other payables (see note 19) and derivatives) is as follows:

	Bank loans and overdrafts £m	Syndicated bank facility £m	Medium- term notes £m	Finance lease liabilities £m	Partnership liability to the Marks & Spencer UK pension £m	Total borrowings and other financial liabilities £m	Derivative assets' £m	Derivative liabilities' £m	Total derivative assets and liabilities £m
Timing of cash flows									
Within one year	(54.0)	(224.9)	(97.2)	(2.5)	(71.9)	(450.5)	2,214.0	(2,092.4)	121.6
Between one and two years	(0.1)	–	(97.2)	(2.4)	(71.9)	(171.6)	238.3	(224.5)	13.8
Between two and five years	–	–	(985.2)	(7.2)	(215.6)	(1,208.0)	414.0	(390.0)	24.0
More than five years	–	–	(1,310.3)	(180.5)	(215.6)	(1,706.4)	459.6	(440.8)	18.8
	(54.1)	(224.9)	(2,489.9)	(192.6)	(575.0)	(3,536.5)	3,325.9	(3,147.7)	178.2
Effect of discounting	–	–	792.2	144.0	62.1	998.3			
At 28 March 2015	(54.1)	(224.9)	(1,697.7)	(48.6)	(512.9)	(2,538.2)			
Timing of cash flows									
Within one year	(92.2)	(205.1)	(98.6)	(2.4)	(71.9)	(470.2)	2,020.2	(1,965.5)	54.7
Between one and two years	–	–	(448.1)	(2.6)	(71.9)	(522.6)	562.7	(526.0)	36.7
Between two and five years	–	–	(605.9)	(7.1)	(215.6)	(828.6)	61.4	(41.2)	20.2
More than five years	–	–	(1,329.3)	(176.9)	(143.7)	(1,649.9)	465.6	(427.0)	38.6
	(92.2)	(205.1)	(2,481.9)	(189.0)	(503.1)	(3,471.3)	3,109.9	(2,959.7)	150.2
Effect of discounting	–	–	755.6	140.4	47.4	943.4			
At 2 April 2016	(92.2)	(205.1)	(1,726.3)	(48.6)	(455.7)	(2,527.9)			

1. Derivative assets and derivative liabilities amounts represent the fair value as at the balance sheet date of the foreign exchange forward contracts and the forecast interest payments on the swap contracts together with the final exchange of notional at the end of the contracts. Such cash flows were translated into GBP using spot rates as of balance sheet date for the cross currency interest rate swaps.

The present value of finance lease liabilities is as follows:

		2016 £m	2015 £m
Within one year		(0.4)	(0.5)
Later than one year and not later than five years		(1.6)	(1.0)
Later than five years		(46.6)	(47.1)
Total		(48.6)	(48.6)

(b) Counterparty risk

Counterparty risk exists where the Group can suffer financial loss through default or non-performance by financial institutions with whom it transacts.

Exposures are managed in accordance with the Group treasury policy which limits the value that can be placed with each approved counterparty to minimise the risk of loss. The minimum long-term rating for all counterparties is long-term Standard & Poor's (A-) / Moody's (A3) (BBB+ for committed lending banks). In the event of a rating by one agency being different to the other, reference will be made to Fitch to determine the casting vote of the rating group. In the absence of a Fitch rating the lower rating will prevail. Limits are reviewed regularly by senior management. The credit risk of these financial instruments is estimated as the fair value of the assets resulting from the contracts.

NOTES TO THE FINANCIAL STATEMENTS
 CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Financial risk management continued

(b) Counterparty risk continued

The table below analyses the Group's short-term investments and derivative assets by credit exposure excluding bank balances, store cash and cash in transit:

	Credit rating of counterparty ³								
	AAAm £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total £m
Short-term investments ¹	—	—	—	3.5	39.9	57.4	—	—	100.8
Derivative assets ²	—	—	—	21.5	21.8	52.1	46.9	—	142.3
At 28 March 2015	—	—	—	25.0	61.7	109.5	46.9	—	243.1

	AAAm £m	AAA £m	AA £m	AA- £m	A+ £m	A £m	A- £m	BBB+ £m	Total £m
Short-term investments ¹	—	—	—	25.1	60.6	63.5	—	—	149.2
Derivative assets ²	—	—	—	42.6	33.3	23.4	—	18.2	117.5
At 2 April 2016	—	—	—	67.7	93.9	86.9	—	18.2	266.7

1. Includes cash on deposit and money market funds held by Marks and Spencer Scottish Limited Partnership, Marks and Spencer plc and Marks & Spencer General Insurance. Excludes cash at hand and in transit £98.4m (last year £105.1m).

2. Excludes the embedded derivative within the lease host contract.

3. Standard & Poor's equivalent rating shown as reference to the majority credit rating of the counterparty from either Standard & Poor's, Moody's or Fitch where applicable.

The Group has very low retail credit risk due to transactions being principally of a high volume, low value and short maturity.

The maximum exposure to credit risk at the balance sheet date was as follows: trade receivables £114m (last year £129m), other receivables £63m (last year £110m), cash and cash equivalents £248m (last year £206m) and derivatives £146m (last year £194m).

(c) Foreign currency risk

Transactional foreign currency exposures arise from both the export of goods from the UK to overseas subsidiaries, and from the import of materials and goods directly sourced from overseas suppliers.

Group treasury hedges these exposures principally using forward foreign exchange contracts progressively covering up to 100% out to 18 months. Where appropriate, hedge cover can be taken out for longer than 18 months, with Board approval. The Group is primarily exposed to foreign exchange risk in relation to sterling against movements in US dollar and euro.

As at the balance sheet date the gross notional value in sterling terms of forward foreign exchange sell or buy contracts amounted to £1,640m (last year £1,591m) with a weighted average maturity date of five months (last year seven months). The Group designates the foreign exchange forwards in a cash flow hedge against variability in foreign currency cash flows arising from the recognition of inventory and the subsequent settlement of the related trade payable.

Gains and losses in equity on forward foreign exchange contracts as at 2 April 2016 will be released to the income statement at various dates over the following 15 months (last year 16 months) from the balance sheet date.

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.

The Group uses a combination of foreign currency debt and derivatives to hedge balance sheet translation exposures. As at the balance sheet date €nil (last year €144m) of currency debt and HK\$1,245m (last year HK\$1,398m) of derivatives were hedging overseas net assets.

The Group also hedges foreign currency intercompany loans where these exist. Forward foreign exchange contracts in relation to the hedging of the Group's foreign currency intercompany loans are designated as held for trading with fair value movements being recognised in the income statement. The corresponding fair value movement of the intercompany loan balance 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 £289m (last year £412m).

After taking into account the hedging derivatives entered into by the Group, the currency and interest rate exposure of the Group's financial liabilities excluding short-term payables and the liability to the Marks & Spencer UK Pension Scheme is set out below:

	2016			2015		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Currency						
Sterling	1,343.7	716.7	2,060.4	1,315.4	568.2	1,883.6
Euro	6.2	0.8	7.0	5.8	105.6	111.4
Other	0.1	4.7	4.8	—	30.3	30.3
	1,350.0	722.2	2,072.2	1,321.2	704.1	2,025.3

The floating rate sterling and euro borrowings are linked to interest rates related to LIBOR. These rates are for periods between one and six months.

As at the balance sheet date and excluding finance leases, the fixed rate sterling borrowings are at an average rate of 5.3% (last year 5.3%) and the weighted average time for which the rate is fixed is seven years (last year eight years).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Financial risk management continued

(d) Interest rate risk

The Group is exposed to interest rate risk in relation to sterling, US dollar and euro variable rate financial assets and liabilities.

The Group's policy is to use derivative contracts where necessary to maintain a mix of fixed and floating rate borrowings to manage this risk. The structure and maturity of these derivatives correspond to the underlying borrowings and are accounted for as fair value or cash flow hedges as appropriate.

At the balance sheet date, fixed rate borrowings amounted to £1,349.9m (last year £1,321.1m) representing the public bond issues and finance leases, amounting to 65% (last year 66%) of the Group's gross borrowings.

The effective interest rates at the balance sheet date were as follows:

	2016 %	2015 %
Committed and uncommitted borrowings	1.0	0.9
Medium term notes	5.3	5.3
Finance leases	4.1	4.1

Derivative financial instruments

	2016		2015	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current				
Forward foreign exchange contracts	– cash flow hedges	69.7	(26.7)	114.8
	– held for trading	1.6	(1.8)	3.1
	– net investment hedges	0.8	–	(0.1)
	72.1	(28.5)	117.9	(7.7)
Non-current				
Cross currency swaps	– cash flow hedges	27.3	–	6.3
Forward foreign exchange contracts	– cash flow hedges	5.4	(0.2)	7.3
Interest rate swaps	– fair value hedge	41.3	–	38.5
Embedded derivative (see notes 5 and 25)	–	–	23.7	–
	74.0	(0.2)	75.8	(20.0)

The Group holds a number of interest rate swaps to re-designate its sterling fixed debt to floating debt. These are reported as fair value hedges. The ineffective portion recognised in the profit or loss that arises from fair value hedges amounts to a loss of £0.2m (last year £0.3m gain) as the loss on the hedged items was £3.0m (last year £33.5m loss) and the gain on the hedging instruments was a loss of £2.8m (last year £33.8m gain). The Group also holds a number of cross currency swaps to re-designate its fixed rate US dollar debt to fixed rate sterling debt. These are reported as cash flow hedges.

Sensitivity analysis

The table below illustrates the estimated impact on the income statement and equity as a result of market movements in foreign exchange and interest rates in relation to the Group's financial instruments. The directors consider that a 2% +/- (last year 2%) movement in interest and a 20% +/- (last year 20%) weakening in sterling against the relevant currency represents a reasonably possible change. However this analysis is for illustrative purposes only.

The table excludes financial instruments that expose the Group to interest rate and foreign exchange risk where such risk is fully hedged with another financial instrument. Also excluded are trade receivables and payables as these are either sterling denominated or the foreign exchange risk is hedged.

Interest rates: the impact in the income statement due to changes in interest rates reflects the effect on the Group's floating rate debt as at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Group's transactional foreign exchange cash flow hedges and the net investment hedges at the balance sheet date. The impact in equity reflects the fair value movement in relation to the Group's cross-currency swaps.

Foreign exchange: the impact from foreign exchange movements reflects the change in the fair value of the Group's transactional foreign exchange cash flow hedges and the net investment hedges at the balance sheet date. The equity impact shown for foreign exchange sensitivity relates to derivative and non-derivative financial instruments hedging net investments. This value is expected to be fully offset by the re-translation of the hedged foreign currency net assets leaving a net equity impact of zero.

	2% decrease in interest rates £m	2% increase in interest rates £m	20% weakening in sterling £m	20% strengthening in sterling £m
At 28 March 2015				
Impact on income statement: gain/(loss)	9.2	(12.5)	–	–
Impact on other comprehensive income: (loss)/gain	(15.2)	8.1	169.8	(113.2)
At 2 April 2016				
Impact on income statement: gain/(loss)	9.2	(11.1)	–	–
Impact on other comprehensive income: (loss)/gain	(0.8)	1.0	136.0	(90.7)

NOTES TO THE FINANCIAL STATEMENTS
 CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Offsetting of financial assets and liabilities

The following tables set out the financial assets and financial liabilities which are subject to offsetting, enforceable master netting arrangements and similar agreements. Amounts which are set off against financial assets and liabilities in the Group's balance sheet are set out below. For trade and other receivables and trade and other payables, amounts not offset in the Statement of Financial Position but which could be offset under certain circumstances are also set out.

	Gross financial assets/(liabilities) £m	Gross financial (liabilities)/assets set off £m	Net financial assets/(liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 2 April 2016					
Trade and other receivables	31.6	(29.5)	2.1	–	2.1
Derivative financial assets	146.1	–	146.1	(28.7)	117.4
Cash and cash equivalents	39.3	(39.3)	–	–	–
	217.0	(68.8)	148.2	(28.7)	119.5

Trade and other payables	(259.3)	29.5	(229.8)	–	(229.8)
Derivative financial liabilities	(28.7)	–	(28.7)	28.7	–
Bank loans and overdrafts	(90.8)	39.3	(51.5)	–	(51.5)
	(378.8)	68.8	(310.0)	28.7	(281.3)

	Gross financial assets/(liabilities) £m	Gross financial (liabilities)/assets set off £m	Net financial assets/(liabilities) per statement of financial position £m	Related amounts not set off in the statement of financial position £m	Net £m
At 28 March 2015					
Trade and other receivables	37.0	(37.0)	–	–	–
Derivative financial assets	170.0	–	170.0	(27.7)	142.3
Cash and cash equivalents	45.0	(42.1)	2.9	–	2.9
	252.0	(79.1)	172.9	(27.7)	145.2
Trade and other payables	(295.0)	37.0	(258.0)	–	(258.0)
Derivative financial liabilities	(27.7)	–	(27.7)	27.7	–
Bank loans and overdrafts	(60.3)	42.1	(18.2)	–	(18.2)
	(383.0)	79.1	(303.9)	27.7	(276.2)

The gross financial assets and liabilities set off in the Statement of Financial Position primarily relate to cash pooling arrangements with banks. Amounts which do not meet the criteria for offsetting on the Statement of Financial Position but could be settled net in certain circumstances principally relate to derivative transactions under ISDA (International Swaps and Derivatives Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2: not traded in an active market but the fair values are based on quoted market prices or alternative pricing sources with reasonable levels of price transparency. The Group's Level 2 financial instruments include interest rate and foreign exchange derivatives. Fair value is calculated using discounted cash flow methodology, future cash flows are estimated based on forward exchange rates and interest rates (from observable market curves) and contract rates, discounted at a rate that reflects the credit risk of the various counterparties for those with a long maturity; 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. At 28 March 2015 the fair value of the embedded derivative was calculated using an option valuation model based on the present value of a 35 year lease with annual lease payments increasing by Retail Price Index (RPI), capped and floored at 1.5% and 2.5% respectively and then discounted back to the valuation date. The valuation was sensitive to changes in RPI. As a result of the acquisition of Lima (Bradford) S.à r.l. in the period, the host contract that contained the embedded derivative is now held between Group companies. As such, the Group no longer holds any third party Level 3 assets or liabilities.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

21 FINANCIAL INSTRUMENTS CONTINUED

Fair Value Hierarchy continued

At the end of the reporting period, the Group held the following financial instruments at fair value:

	2016				2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets measured at fair value								
Financial assets at fair value through profit or loss								
- Trading derivatives	-	1.4	-	1.4	-	3.1	-	3.1
Derivatives used for hedging	-	144.7	-	144.7	-	166.9	-	166.9
Embedded derivatives (see note 5)	-	-	-	-	-	-	23.7	23.7
Short-term investments	-	19.1	-	19.1	-	11.6	-	11.6
Liabilities measured at fair value								
Financial liabilities at fair value through profit or loss								
- Trading derivatives	-	(1.8)	-	(1.8)	-	(0.4)	-	(0.4)
Derivatives used for hedging	-	(26.9)	-	(26.9)	-	(27.3)	-	(27.3)

There were no transfers between Level 1 and Level 2 fair value measurements. In addition to the above, the Group has £3.0m (last year £3.0m) in unlisted equity securities measured at cost.

The following table represents the changes in Level 3 instruments:

	2016 £m	2015 £m
Opening balance	23.7	22.4
Fair value (loss)/gain recognised in the income statement	(2.0)	1.3
Derecognition	(21.7)	-
Closing balance	-	23.7

During the year the Group purchased Lima (Bradford) S.à r.l. This resulted in the derecognition of the embedded derivative as the host lease contract is now between subsidiaries of the Group (see note 25).

The gains recognised in the income statement relate to the valuation of the embedded derivative in a lease contract up until the acquisition date. The fair value movement of the embedded derivative of £2.0m loss (last year £1.3m gain) and subsequent derecognition of the asset (£21.7m) is treated as an adjustment to reported profit (see note 5).

Fair value of financial instruments

With the exception of the Group's fixed rate bond debt and the Partnership liability to the Marks & Spencer UK Pension Scheme, there were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values as at the balance sheet date.

The carrying value of the Group's fixed rate bond debt (Level 1 equivalent) was £1,726.4m (last year £1,697.7m), the fair value of this debt was £1,868.3m (last year £1,883.6m). The carrying value of the Partnership liability to the Marks & Spencer UK Pension Scheme (Level 3 equivalent) is £455.7m (last year £512.9m) and the fair value of this liability is £445.3m (last year £501.3m).

Capital policy

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide optimal returns for shareholders and to maintain an efficient capital structure to reduce the cost of capital.

In doing so the Group's strategy is to maintain a capital structure commensurate with an investment grade credit rating and to retain appropriate levels of liquidity headroom to ensure financial stability and flexibility. To achieve this strategy the Group regularly monitors key credit metrics such as the gearing ratio, cash flow to net debt (see note 28) and fixed charge cover to maintain this position. In addition, the Group ensures a combination of appropriate committed short-term liquidity headroom with a diverse and balanced long-term debt maturity profile. As at the balance sheet date the Group's average debt maturity profile was seven years (last year eight years). During the year the Group maintained an investment grade credit rating of Baa3 (stable) with Moody's and BBB- (stable) with Standard & Poor's.

In order to maintain or realign the capital structure, the Group may adjust the number of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

NOTES TO THE FINANCIAL STATEMENTS
 CONTINUED

22 PROVISIONS

	Property £m	Restructuring £m	Other £m	2016 £m	2015 £m
At 28 March 2015	42.9	27.9	7.5	78.3	76.2
Provided in the year	29.0	7.4	3.6	40.0	33.7
Released in the year	(9.9)	(15.6)	(6.0)	(31.5)	(19.3)
Utilised during the year	(10.3)	(10.0)	(1.3)	(21.6)	(32.8)
Exchange differences	0.3	0.1	–	0.4	(2.0)
Discount rate unwind	0.4	–	–	0.4	0.3
Reclassification from trade and other payables	–	–	–	–	22.2
At 2 April 2016	52.4	9.8	3.8	66.0	78.3
Analysed as:					
Current				14.0	46.2
Non-current				52.0	32.1

Property provisions relate to onerous lease contracts and dilapidations primarily arising as a result of the closure of stores in the UK and Western Europe. These provisions are expected to be utilised over the period to the end of each specific lease.

Restructuring provisions relate to the estimated costs of several strategic programmes, the current restructure of the logistics network and the closure of the Balkans operations (see note 5). These provisions are expected to be utilised within five years.

23 DEFERRED TAX

Deferred tax is provided under the balance sheet liability method using the tax rate at which the balances are expected to unwind of 20%, 19% and 18% as applicable (last year 20%) for UK differences and local tax rates for overseas differences. Details of the changes to the UK corporation tax rate and the impact on the Group are described in note 7.

The movements in deferred tax assets and liabilities (after offsetting balances within the same jurisdiction as permitted by IAS 12 'Income Taxes') during the year are shown below:

Deferred tax assets/(liabilities):

	Land and buildings temporary differences £m	Capital allowances in excess of depreciation £m	Pension temporary differences £m	Other short-term temporary differences £m	Total UK deferred tax £m	Overseas deferred tax £m	Total £m
At 30 March 2014	(49.3)	(99.9)	(97.3)	14.9	(231.6)	(11.0)	(242.6)
Credited/(charged) to income statement	2.3	(6.1)	(2.3)	(4.3)	(10.4)	0.4	(10.0)
(Charged)/credited to equity/other comprehensive income	–	–	(55.2)	(13.7)	(68.9)	7.4	(61.5)
At 28 March 2015	(47.0)	(106.0)	(154.8)	(3.1)	(310.9)	(3.2)	(314.1)
At 29 March 2015	(47.0)	(106.0)	(154.8)	(3.1)	(310.9)	(3.2)	(314.1)
Credited/(charged) to the income statement	6.4	25.9	0.7	3.0	36.0	(2.5)	33.5
(Charged)/credited to equity/other comprehensive income	–	–	(51.4)	(1.8)	(53.2)	2.4	(50.8)
Other balance sheet movement	(6.2)	–	–	–	(6.2)	–	(6.2)
At 2 April 2016	(46.8)	(80.1)	(205.5)	(1.9)	(334.3)	(3.3)	(337.6)

Other short-term temporary differences relate mainly to employee share options and financial instruments.

Other balance sheet movements, categorised as land and building temporary differences, relate to recognition of a deferred tax liability on the acquisition of the remaining 50% stake in the Lima (Bradford) S.à r.l joint venture.

The deferred tax liability on land and buildings temporary differences is reduced by the benefit of capital losses with a tax value of £49.9m (last year £48.4m). Due to uncertainty over their future use, no benefit has been recognised in respect of unexpired trading losses carried forward in overseas jurisdictions with a tax value of £22.3m (last year £43.5m).

No deferred tax is recognised in respect of undistributed earnings of overseas subsidiaries and joint ventures unless a material liability is expected to arise on distribution of these earnings under applicable tax legislation. There is a potential tax liability in respect of undistributed earnings of £5.4m (last year £4.4m) however this has not been recognised on the basis the distribution can be controlled by the Group.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

24 ORDINARY SHARE CAPITAL

	2016		2015	
	Shares	£m	Shares	£m
Issued and fully paid ordinary shares of 25p each				
At start of year	1,647,814,746	412.0	1,632,247,974	408.1
Shares issued on exercise of share options	6,797,209	1.7	15,566,772	3.9
Shares cancelled through share buyback	(31,647,148)	(7.9)	–	–
At end of year	1,622,964,807	405.8	1,647,814,746	412.0

Issue of new shares

6,797,209 (last year 15,566,772) ordinary shares having a nominal value of £1.7m (last year £3.9m) were allotted during the year under the terms of the Company's schemes which are described in note 13. The aggregate consideration received was £20.6m (last year £40.8m).

Share buyback

31,647,148 (last year nil) ordinary shares having a nominal value of £7.9m (last year £nil) were bought back and subsequently cancelled during the year in accordance with the authority granted by shareholders in the Annual General Meeting in July 2015. The aggregate consideration paid, including directly attributable costs, was £150.7m (last year £nil).

25 BUSINESS COMBINATIONS

On 29 February 2016, Marks and Spencer plc purchased the remaining 50% share in the joint venture Lima (Bradford) S.à r.l. This company owned an automated distribution centre in Bradford used by the Group. The distribution centre was transferred to another group company on the same day and on 1 March 2016 Lima (Bradford) S.à r.l. was put into liquidation.

This purchase has been accounted for as a stepped acquisition under IFRS 3 'Business Combinations.' The deemed disposal of the original 50% share of the joint venture resulted in the recognition of a £27.1m gain in the period, which has been recognised as a non-underlying credit in the consolidated income statement as disclosed in note 5. This gain arose as a result of the requirement to fair value the initial 50% share held by Marks and Spencer plc.

A summary of how the gain arose is detailed below:

	2016 £m
Fair value of previously owned 50% interest	56.2
Repayment of intercompany loan	(24.0)
Deemed proceeds received by Marks and Spencer plc for the existing 50% interest	32.2
Carrying value of the investment in the joint venture	(5.1)
Gain arising on acquisition	27.1

The acquisition resulted in the recognition of goodwill, as shown below:

	2016 £m
Property, plant and equipment	112.6
Other net liabilities	(62.6)
Total identifiable assets	50.0
Cash paid	56.2
Goodwill arising on acquisition	6.2

This acquisition resulted in the recognition of £6.2m of goodwill, as a result of the consideration paid exceeding the fair value of the net assets acquired, attributable to the recognition of a deferred tax liability in relation to the property. The goodwill is not expected to be deductible for income tax purposes.

The purchase of this entity resulted in the distribution centre being fully owned by the Group. Therefore the embedded derivative previously recognised by the Group in relation to the lease agreement for the distribution centre has been eliminated. The derecognition of this embedded derivative resulted in the recognition of a £21.7m loss in the consolidated income statement. This has been recognised as a non-underlying item, as disclosed in notes 5 and 21.

26 CONTINGENCIES AND COMMITMENTS

A. Capital commitments

	2016 £m	2015 £m
Commitments in respect of properties in the course of construction	129.2	102.9
Software capital commitments	17.1	25.5
	146.3	128.4

B. Other material contracts

In the event of a material change in the trading arrangements with certain warehouse operators, the Group has a commitment to purchase property, plant and equipment which is currently owned and operated by the warehouse operators on the Group's behalf (at values ranging from historical net book value to market value).

See note 12 for details on the partnership arrangement with the Marks & Spencer UK Pension Scheme.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

26 CONTINGENCIES AND COMMITMENTS CONTINUED

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.

	2016 £m	2015 £m
Total future minimum rentals payable under non-cancellable operating leases are as follows:		
Within one year	311.3	291.6
- Later than one year and not later than five years	1,108.4	1,074.1
- Later than five years and not later than ten years	1,099.4	1,091.0
- Later than ten years and not later than 15 years	542.8	549.3
- Later than 15 years and not later than 20 years	351.9	348.8
- Later than 20 years and not later than 25 years	225.8	242.2
- Later than 25 years	970.3	1,074.3
Total	4,609.9	4,671.3

The total non-cancellable future sublease payments to be received are £36.1m (last year £41.2m).

27 ANALYSIS OF CASH FLOWS GIVEN IN THE STATEMENT OF CASH FLOWS

Cash flows from operating activities

	2016 £m	2015 £m
Profit on ordinary activities after taxation	404.4	481.7
Income tax expense	84.4	118.3
Finance costs	116.4	116.8
Finance income	(21.1)	(15.5)
Operating profit	584.1	701.3
(Increase)/decrease in inventories	(22.5)	45.7
Decrease/(increase) in receivables	3.3	(13.0)
Increase in payables	32.4	87.6
Non-underlying operating cash (outflows)/inflows	(12.9)	28.6
Depreciation, amortisation and underlying asset impairments and write-offs	576.8	550.1
Share-based payments	16.0	(1.1)
Pension costs charged against operating profit	102.0	85.4
Cash contributions to pension schemes	(118.4)	(143.0)
Non-underlying non-cash items	(50.3)	(53.7)
Non-underlying operating profit items	200.8	61.2
Cash generated from operations	1,311.3	1,349.1

28 ANALYSIS OF NET DEBT

A. Reconciliation of movement in net debt

	At 29 March 2015 £m	Cash flow £m	Exchange and other non-cash movements £m	At 2 April 2016 £m
Net cash				
Bank loans, overdrafts and syndicated bank facility (see note 20)	(279.0)	(16.7)	(1.6)	(297.3)
Less: amounts treated as financing (see below)	260.9	(16.8)	1.6	245.7
	(18.1)	(33.5)	–	(51.6)
Cash and cash equivalents (see note 18)	205.9	38.0	3.7	247.6
Net cash per statement of cash flows	187.8	4.5	3.7	196.0
Current financial assets (see note 16)	11.6	7.2	0.3	19.1
Debt financing				
Bank loans, and overdrafts treated as financing (see above)	(260.9)	16.8	(1.6)	(245.7)
Medium-term notes (see note 20)	(1,611.8)	–	(2.0)	(1,613.8)
Finance lease liabilities (see note 20)	(48.6)	2.4	(2.4)	(48.6)
Partnership liability to the Marks & Spencer UK Pension Scheme (see note 12)	(501.3)	56.0	–	(445.3)
Debt financing	(2,422.6)	75.2	(6.0)	(2,353.4)
Net debt	(2,223.2)	86.9	(2.0)	(2,138.3)

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

28 ANALYSIS OF NET DEBT CONTINUED

B. Reconciliation of net debt to statement of financial position

	2016 £m	2015 £m
Statement of financial position and related notes		
Cash and cash equivalents (see note 18)	247.6	205.9
Current financial assets (see note 16)	19.1	11.6
Bank loans and overdrafts (see note 20)	(297.3)	(279.0)
Medium-term notes – net of hedging derivatives	(1,656.1)	(1,652.0)
Finance lease liabilities (see note 20)	(48.6)	(48.6)
Partnership liability to the Marks & Spencer UK Pension Scheme (see notes 12 and 21)	(455.7)	(512.9)
	(2,191.0)	(2,275.0)
Interest payable included within related borrowing and the partnership liability to the Marks & Spencer UK Pension Scheme	52.7	51.8
Total net debt	(2,138.3)	(2,223.2)

29 RELATED PARTY TRANSACTIONS

A. Subsidiaries

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's separate financial statements.

B. Hedge End joint venture

A loan of £5.0m was received from the joint venture on 9 October 2002. It is repayable on five business days' notice and was renewed on 1 January 2015. Interest was charged on the loan at 2.0% until 31 December 2009 and 0.5% thereafter.

C. Lima (Bradford) joint venture

A loan facility was provided to the joint venture on 11 August 2008, on which interest was charged at 2.7% above 3-month LIBOR. On 29 February 2016, Marks and Spencer plc purchased the remaining 50% share in the joint venture Lima (Bradford) S.à r.l. At this date £24.0m was drawn down on the loan facility and this was fully repaid on acquisition. In addition, the Group had entered into a rental agreement with the joint venture and £4.5m (last year £4.9m) of rental charges were incurred up to the date of acquisition. Refer to note 25 for further disclosures regarding this acquisition.

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

	2016 £m	2015 £m
Salaries and short-term benefits	7.5	7.3
Share-based payments	0.3	0.3
Total	7.8	7.6

Key management comprises Board directors only. Further information about the remuneration of individual directors is provided in the Remuneration Report. During the year, key management have purchased goods at the Group's usual prices less a 20% discount. This discount is available to all staff employed directly by the Group in the UK.

F. Other related party transactions

Supplier transactions occurred during the year between the Group and a company controlled by Martha Lane Fox's partner. Martha served as a non-executive director of the Group up to 2 April 2016. These transactions amounted to £2.6m during the year (last year £2.5m) with an outstanding trade payable of £0.2m at 2 April 2016 (last year £0.2m).

30 SUBSEQUENT EVENTS

On 25 May 2016 the directors announced proposals for a significant base rate increase for Qualified Customer Assistants to £8.50 per hour outside London and £9.65 in Greater London, as well as pay rises for Section Coordinators and Section Managers, with effect from April 2017. The directors also announced proposals for a fairer, simpler and more consistent approach to pay and premiums.

In addition, also effective from April 2017, the directors are proposing to make changes to the UK defined benefit (DB) pension scheme, which has been closed to new members since 2002, to close it to future accrual. We would enrol current defined benefit members in the defined contribution savings plan from April 2017. This has had no impact on the results for the year ended 2 April 2016.

These proposals are subject to consultation and the potential non-underlying charges for both the pay and pension changes for year ending 1 April 2017 could be in the range of c£100m to £150m. This non-underlying charge is largely driven by the DB pension changes because when current active members become deferred members, the annual increase in their pensionable salary is linked to CPI as opposed to being capped at 1%.

COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	As at 2 April 2016 £m	As at 28 March 2015 £m
Assets			
Non-current assets			
Investments in subsidiary undertakings	C6	9,235.8	9,226.4
Total assets		9,235.8	9,226.4
Liabilities			
Current liabilities			
Amounts owed to subsidiary undertakings		2,559.2	2,429.5
Total liabilities		2,559.2	2,429.5
Net assets		6,676.6	6,796.9
Equity			
Ordinary share capital		405.8	412.0
Share premium account		411.3	392.4
Capital redemption reserve		2,210.5	2,202.6
Merger reserve		1,397.3	1,397.3
Retained earnings		2,251.7	2,392.6
Total equity		6,676.6	6,796.9

The financial statements were approved by the Board and authorised for issue on 24 May 2016. The financial statements also comprise the notes on pages 123 to 125.

Steve Rowe Chief Executive Officer **Helen Weir** Chief Finance Officer

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary share capital £m	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 30 March 2014	408.1	355.5	2,202.6	1,397.3	2,382.1	6,745.6
Profit for the year	–	–	–	–	282.2	282.2
Dividends	–	–	–	–	(280.7)	(280.7)
Capital contribution for share-based payments	–	–	–	–	9.0	9.0
Shares issued on exercise of employee share options	3.9	36.9	–	–	–	40.8
At 28 March 2015	412.0	392.4	2,202.6	1,397.3	2,392.6	6,796.9
At 29 March 2015	412.0	392.4	2,202.6	1,397.3	2,392.6	6,796.9
Profit for the year	–	–	–	–	302.1	302.1
Dividends	–	–	–	–	(301.7)	(301.7)
Capital contribution for share-based payments	–	–	–	–	9.4	9.4
Shares purchased in buyback	(7.9)	–	7.9	–	(150.7)	(150.7)
Shares issued on exercise of employee share options	1.7	18.9	–	–	–	20.6
At 2 April 2016	405.8	411.3	2,210.5	1,397.3	2,251.7	6,676.6

COMPANY STATEMENT OF CASH FLOWS

	53 weeks ended 2 April 2016 £m	52 weeks ended 28 March 2015 £m
Cash flow from investing activities		
Dividends received	302.1	282.2
Net cash generated from investing activities	302.1	282.2
Cash flows from financing activities		
Shares issued on exercise of employee share options	20.6	40.8
Shares purchased in buyback	(150.7)	–
Drawdown/(repayment) of intercompany loan	129.7	(42.3)
Equity dividends paid	(301.7)	(280.7)
Net cash used in financing activities	(302.1)	(282.2)
Net cash inflow from activities	–	–
Cash and cash equivalents at beginning and end of year	–	–

NOTES TO THE COMPANY FINANCIAL STATEMENTS

C1 ACCOUNTING POLICIES

The Company's accounting policies are the same as those set out in note 1 of the Group financial statements, except as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. The Company grants share-based payments to the employees of subsidiary companies. Each period the fair value of the employee services received by the subsidiary as a capital contribution from the Company is reflected as an addition to investments in subsidiaries.

Loans from other Group undertakings and all other payables are initially recorded at fair value, which is generally the proceeds received. They are then subsequently carried at amortised cost. The loans are non-interest bearing and repayable on demand.

The Company's financial risk is managed as part of the Group's strategy and policies as discussed in note 21 of the Group financial statements.

In accordance with the exemption allowed by Section 408(3) of the Companies Act 2006, the Company has not presented its own income statement or statement of comprehensive income.

C2 EMPLOYEES

The Company had no employees during the current or prior year. Directors received emoluments in respect of their services to the Company during the year of £956,000 (last year £960,000). The Company did not operate any pension schemes during the current or preceding year.

C3 AUDITOR'S REMUNERATION

Auditor's remuneration in respect of the Company's annual audit has been borne by its subsidiary Marks and Spencer plc and has been disclosed on a consolidated basis in the Company's consolidated financial statements as required by Section 494(4)(a) of the Companies Act 2006.

C4 DIVIDENDS

	2016 per share	2015 per share	2016 £m	2015 £m
Dividends on equity ordinary shares				
Paid final dividend	11.6p	10.8p	190.8	176.2
Paid interim dividend	6.8p	6.4p	110.9	104.5
	18.4p	17.2p	301.7	280.7

In addition, the directors have proposed a final dividend in respect of the year ended 2 April 2016 of 11.9p per share (last year 11.6p), amounting to a dividend of £192.6m (last year £190.8m). This payment is subject to approval of shareholders at the Annual General Meeting, to be held on 12 July 2016.

In addition, the Board have declared the payment of a special dividend of 4.6p per share amounting to a dividend of c£75m. Both the special and the final dividends will be paid on 15 July 2016 to the shareholders on the register of members as at close of business on 3 June 2016. In line with the requirements of IAS 10 'Events after the Reporting Period', these dividends have not been recognised within these results.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. The shares will go ex-dividend on 2 June 2016. For those shareholders electing to receive the DRIP the last date for receipt of a new election is 24 June 2016.

C5 RELATED PARTY TRANSACTIONS

During the year, the Company has received dividends from Marks and Spencer plc of £302.1m (last year £282.2m) and increased its loan from Marks and Spencer plc by £129.7m (last year decreased by £42.3m). The outstanding balance was £2,559.2m (last year £2,429.5m) and is non-interest bearing. There were no other related party transactions.

C6 INVESTMENTS

A. Investments in subsidiary undertakings

	2016 £m	2015 £m
Beginning of the year	9,226.4	9,217.4
Additional investment in subsidiary undertakings relating to share-based payments	9.4	9.0
End of year	9,235.8	9,226.4

Shares in subsidiary undertakings represent the Company's investment in Marks and Spencer plc. The directors believe that the carrying value of the investments is supported by their underlying net assets.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
CONTINUED

C6 INVESTMENTS CONTINUED

B Related undertakings

In accordance with section 409 of the Companies Act 2006, a full list of related undertakings, the country of incorporation and the effective percentage of equity owned, as at 2 April 2016 is disclosed below:

Subsidiary undertakings registered in the UK⁽ⁱ⁾

Name	Share Class	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Name	Share Class	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)
Amethyst Leasing (Holdings) Limited	£1 Ordinary	0	100	Marks and Spencer Pension Trust Investments Limited	£1 Ordinary	0	100
Hedge End Park Limited Registered Office: 33 Holborn, London, EC1N 2HT	£1 Ordinary	0	50	Marks and Spencer Pension Trust Limited ⁽ⁱⁱ⁾	£1 A Ordinary	100	0
M&S Limited	£1 Ordinary	0	100		£1 B Ordinary	0	0
Manford (Textiles) Limited	£1 Ordinary	0	100		£1 C Ordinary	0	0
Marks & Spencer Company Archive CIC	£1 Ordinary	0	100	Marks and Spencer plc	£0.25 Ordinary	100	0
Marks & Spencer Outlet Limited	£1 Ordinary	0	100	Marks and Spencer Property Developments Limited	£1 Ordinary	0	100
Marks & Spencer Simply Foods Limited	£1 Ordinary	0	100	Marks and Spencer Property Holdings Limited	£1 Ordinary	0	100
Marks and Sparks Limited	£1 Ordinary	0	100	Marks and Spencer Scottish Limited Partnership ⁽ⁱⁱⁱ⁾ Registered Office: 2-28 St Nicholas Street, Aberdeen, AB10 1BU	Partnership interest	0	100
Marks and Spencer (Northern Ireland) Limited	£1 Ordinary	0	100	Marks and Spencer Shared Services Limited	£1 Ordinary	0	100
Marks and Spencer (Property Investments) Limited	£1 Ordinary	0	100	Minterton Services Limited	£1 Ordinary	0	100
Marks and Spencer (Property Ventures) Limited	£1 Ordinary	0	100	Marks and Spencer (Bradford) Limited	£1 Ordinary	0	100
Marks and Spencer Chester Limited	£1 Ordinary	0	100	Per Una Group Limited	£1 Ordinary	0	100
Marks and Spencer France Limited	£1 Ordinary	0	100	Ruby Properties (Enfield) Limited	£1 Ordinary	0	100
Marks and Spencer Guernsey Investments LLP	£1 Ordinary	0	100	St. Michael (Textiles) Limited	£1 Ordinary	0	100
Marks and Spencer International Holdings Limited	£1 Ordinary	0	100	St. Michael Finance plc	£1 Ordinary	0	100

UK registered subsidiaries exempt from audit

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies House Act 2006 for the year ended 2 April 2016. Unless otherwise stated, the undertakings listed below are registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom, and all have a single class of ordinary share with a nominal value of £1.

Name	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Company Number	Name	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Company Number
Amethyst Leasing (Properties) Limited	0	100	04246934	Marks and Spencer 2005 (Kingston-on-Thames Store) Limited	0	100	05502520
Busexport Limited	0	100	04411320	Marks and Spencer 2005 (Parman House Kingston Store) Limited	0	100	05502588
Marks and Spencer (Initial LP) Limited Registered Office:	100	0	SC315365	Marks and Spencer 2005 (Pudsey Store) Limited	0	100	05502544
Marks and Spencer (Property Ventures) Limited	0	100	02239799	Marks and Spencer 2005 (Warrington Gemini Store) Limited	0	100	05502502
Marks and Spencer 2005 (Brooklands Store) Limited	0	100	05502608	Marks and Spencer Hungary Limited	0	100	08540784
Marks and Spencer 2005 (Chester Satellite Store) Limited	0	100	05502519	Marks and Spencer Investments	0	100	04903061
Marks and Spencer 2005 (Chester Store) Limited	0	100	05502542	Marks and Spencer Property Holdings Limited	0	100	02100781
Marks and Spencer 2005 (Fife Road Kingston Store) Limited	0	100	05502598	Ruby Properties (Cumbernauld) Limited	0	100	04922798
Marks and Spencer 2005 (Glasgow Sauchiehall Store) Limited	0	100	05502546	Ruby Properties (Hardwick) Limited	0	100	02100781
Marks and Spencer 2005 (Hedge End Store) Limited	0	100	05502538	Ruby Properties (Long Eaton) Limited	0	100	04716031
Marks and Spencer 2005 (Kensington Store) Limited	0	100	05502478	Ruby Properties (Thorncliffe) Limited	0	100	04716110
Marks and Spencer 2005 (Kingston-on-Thames Satellite Store) Limited	0	100	05502523	Ruby Properties (Tunbridge) Limited	0	100	04716032
				Simply Food (Property Investments)	0	100	05502543
				Simply Food (Property Ventures Investments)	0	100	02239799

The Company will guarantee the debts and liabilities of the above UK subsidiary undertakings at the balance sheet date of £6.3m in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

(i) All companies registered at Waterside House, 35 North Wharf Road, London, W2 1NW, United Kingdom, unless otherwise stated.

(ii) In accordance with the articles of association of Marks and Spencer Pension Trust Limited, the holders of B and C Ordinary shares are both directors of that company.

(iii) Marks and Spencer (Initial LP) Limited and Marks and Spencer Pension Trust Limited are the limited partners; Marks and Spencer plc is the General Partner.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

CONTINUED

C6 INVESTMENTS CONTINUED

B Related undertakings continued

International subsidiary undertakings⁽ⁱ⁾

Name	Registered Address	Country	Share Class	Proportion of shares held by subsidiary (%)	Name	Registered Address	Country	Share Class	Proportion of shares held by subsidiary (%)
Marks and Spencer (Australia) Pty Limited	Aurora Place, Level 19, 88 Phillip Street, Sydney, NSW 2000, Australia	Australia	AUD 2 Ordinary	100	Marks and Spencer (Ireland) Limited	24-27 Mary Street, Dublin 1, Ireland	Ireland	€1.25 Ordinary	100
Marks and Spencer GmbH	Sternsgasse 13, Vienna, Austria	Austria	€35,000 Ordinary	100	Marks and Spencer Pension Trust (Ireland) Limited⁽ⁱⁱ⁾	24-27 Mary Street, Dublin 1, Ireland	Ireland	Limited by guarantee	100
Marks and Spencer (Belgium) Limited	4th Floor, 97 Rue Royale, 1000 Brussels, Belgium	Belgium	€1.21 Ordinary	100	Marks and Spencer (Israel) Limited	31 Ahad Haam Street, Tel Aviv 65202, Israel	Israel	NIS Ordinary	100
Marks and Spencer Bulgaria EOOD (in liquidation)	17 Sveta Cora Str., 1164 Sofia, Bulgaria	Bulgaria	€ Ordinary	100	Marks & Spencer (Italy) S.r.l. (in liquidation)	Via Felice Casati 20, 20124 Milan, Italy	Italy	USD Quota	100
Marks & Spencer Canada Incorporated	40 Wellington Row, Saint John NB E2L 4S3, Canada	Canada	CAD 1 Common	100	Per Una Italia SRL (in liquidation)	Piazza Martini 3/4, 59100 Prato, Italy	Italy	€ Quota	100
			CAD NPV	100	Marks and Spencer (Jersey) Limited	7-11 Britannia Place, Bath Street, St Helier	Jersey	£1 Ordinary	100
			CAD 1 Pref	100	MSF Latvia SIA	Jeruzalem 3, Riga, LV-1084, Latvia	Latvia	€142 Ordinary	100
Marks & Spencer Holdings Canada Incorporated	40 Wellington Row, Saint John NB E2L 4S3, Canada	Canada	CAD 1 Common	100	UAB MSF Lithuania	Cedimino pr.20, Vilnius, Lithuania	Lithuania	€28.96 Ordinary	100
			CAD 1 Preference Class A	100	Lima (Bradford) Sarl (in liquidation)	34-38 Avenue de la Liberté, R.C.S. Luxembourg B 109222, L-1930, Luxembourg	Luxembourg	£20 Ordinary	100
Marks & Spencer Inc.	40 Wellington Row, Saint John NB E2L 4S3, Canada	Canada	CAD 1 Common	100	Marks and Spencer Montenegro DOO Podgorica (in liquidation)	C/O Eurofast Global Limited, 112 Bul.Svetog Petra Cetinskog, 8100 Podgorica, Montenegro	Montenegro	€ Ordinary	100
Marks and Spencer (Shanghai) Limited	Suite 2901-2902, 2299 Yanan Road, Changning, Shanghai, China	China	Registered Capital	100	M & S Mode International B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer Commercial (Shanghai) Ltd	863 Nanjing Road West, Jin An District, Shanghai, China	China	Registered Capital	100	Marks and Spencer (Nederland) B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€450 Ordinary	100
Marks and Spencer Croatia d.o.o. (in liquidation)	Dražkovićeva ul. 82, 10000, Zagreb, Croatia	Croatia	HRK Ordinary	100	Marks and Spencer BV	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€100 Ordinary	100
Marks and Spencer Czech Republic a.s.	Praha 4, Michle, Vyskocilova 148/4, Czech Republic	Czech Republic	CZK 1,000 Ordinary	100	Marks and Spencer Nederland (Retail) B.V.	Muntplein 10C, 1012 WR Amsterdam, Netherlands	Netherlands	€100.00 Ordinary	100
			CZK 100,000 Ordinary	100	Marks and Spencer Stores B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, Netherlands	Netherlands	€450 Ordinary	100
			CZK 1,000,000 Ordinary	100	Marks and Spencer Poland Sp z o.o.	UL Marszałkowska 104/122, 00-017 Warszawa, Poland	Poland	PLN 50.00 Ordinary	100
Marks and Spencer Services S.R.O.	Praha 4, Michle, Vyskocilova 148/4, Czech Republic	Czech Republic	Registered Capital	100	Marks & Spencer (Portugal) Lda.	Avenida da Liberdade 249, 1250-143, Lisbon, Portugal	Portugal	€1 Ordinary	100
Öü MSF Estonia	Paldiski mnt 102, Tallinn, 13522, Estonia	Estonia	Registered capital	100	Marks and Spencer Romania SA	3rd Floor Apartment 11, 17-19 Virgiliu Street, 1st District, Bucharest, Romania	Romania	RON 18.30 Ordinary	100
Andis SARL	48 Rue de la Chaussée-d'Antin, 75009 Paris, France	France	€1,060 Ordinary	100	Marks and Spencer Doo Beograd	Patrisa Lumumbabe no. 70, 11000 Belgrade	Serbia	RSD Quotas	100
Marks & Spencer Marinopoulos Greece SA	33-35 Ermou Street, Athens, Greece	Greece	€3 Ordinary	80	Marks and Spencer (Singapore) Investments Pte. Ltd.	3 Anson Road, #27-01 Springleaf Tower, 079909, Singapore	Singapore	No Par Value Ordinary	100
Ignazia Limited	Heritage Hall, Le Marchant Street, St Peter Port, CIY 1JH, Guernsey	Guernsey	£1 Ordinary	99.99	MSF Slovakia S.R.O.	Ivanská cesta 16, Bratislava, 821 04, Slovakia	Slovakia	Registered Capital	100
Marks and Spencer (Alderney) Limited	Linwood, Alles es Fees, Alderney	Guernsey	£1 Ordinary	100	Marks and Spencer Ljubljana LLC (in liquidation)	Šmartinska cesta 130, 1000 Ljubljana	Slovenia	€ Ordinary	100
Teranis Limited	Heritage Hall, Le Marchant Street, St Peter Port, CIY 1JH, Guernsey	Guernsey	£1 Ordinary	99.99	Marks and Spencer (Pty) Limited	Woolworths House, 93 Longmarket Street, Cape Town 8001, South Africa	South Africa	ZAR 2 Ordinary	100
Marks and Spencer (Asia Pacific) Limited	Suite 1009, 10/F, Tower 6, The Gateway 9 Canton Road, Kowloon, Hong Kong	Hong Kong	HKD 1 Ordinary	100	M&S (Spain) S.L.	Calle Fuentarral No. 119, 28010, Madrid, Spain	Spain	€1 Ordinary	100
Marks and Spencer (Hong Kong) Investments Limited	Suite 1009, 10/F, Tower 6, The Gateway 9 Canton Road, Kowloon, Hong Kong	Hong Kong	HKD 1 Ordinary	100	Marks & Spencer AB (in liquidation)	Bragevagen 23, SE-182 64 Djursholm, Sweden	Sweden	SEK 100 Ordinary	100
Marks and Spencer (Hungary) Kft	Fehérvári út 50-52, 1117 Budapest, Hungary	Hungary	HUF 280,500,000 Quota	100	Marks and Spencer (Thailand) Limited	1011 Supalai Grand Tower, 24th Floor, Rama 3 Road, Kwaeng Chongnonsi, Khet Yannawa, Bangkok 10120, Thailand	Thailand	THB 100.00 Ordinary	100
Marks and Spencer (India) pvt Limited	Tower C, RM2 Millenia, 4th Floor, India Lake Wing, #1 Murphy Road, Bangalore, 560008, India	India	INR10 Ordinary	100	Marks and Spencer Clothing Textile Trading L.L.C	Havalanı Karşıyaka İstanbul Dünay Ticaret Merkezi, A3 Blok, Kat11 Yesilköy, Bakırköy, İstanbul, Turkey	Turkey	TRL 25.00 Ordinary	100
Marks and Spencer Reliance India Pvt Ltd	4th Floor, Court House, Lokmanya Tilak Marg, Dhobi Talao, Mumbai, 400 002, India	India	INR 10 Class A	51	Marks & Spencer Services Inc.	2711 Centerville Road, Suite 400, Wilmington DE 19808, United States	United States	USD 1 Common	100
			INR 10 Class B	100	Marks & Spencer Ventures Finance LLC	2711 Centerville Road, Suite 400, Wilmington DE 19808, United States	United States	USD 1 Common	100
Supreme Tradelinks Private Limited	First Floor, Anand Bhawan, Sansar Chandra Road, Jaipur, 302 001, India	India	INR 10 Ordinary	100					
Aprell Limited	24-29 Mary Street, Dublin 1, Ireland	Ireland	€1.25 Ordinary	100					

NOTE: A number of the companies listed are legacy companies which no longer serve any operational purpose.

(i) The shares of all international undertakings are held by companies within the Group other than the Company (Marks and Spencer Group plc).

(ii) INR 10 Class C shares 100% owned by JV partner.

(iii) No share capital as the company is limited by guarantee.

GROUP FINANCIAL RECORD

	2016 53 weeks £m	2015 52 weeks £m	2014 52 weeks £m	2013 52 weeks £m	2012 52 weeks £m
Income statement					
Revenue¹					
UK	9,470.8	9,223.1	9,155.7	8,951.4	8,868.2
International	1,084.6	1,088.3	1,154.0	1,075.4	1,066.1
	10,555.4	10,311.4	10,309.7	10,026.8	9,934.3
Operating profit/(loss)¹					
UK	627.3	640.6	600.3	632.8	658.0
International	(43.2)	60.7	94.2	120.2	88.5
Total operating profit	584.1	701.3	694.5	753.0	746.5
Net interest payable	(110.6)	(111.8)	(125.8)	(212.9)	(114.1)
Pension finance income	15.3	10.5	11.7	7.1	25.6
Profit on ordinary activities before taxation	488.8	600.0	580.4	547.2	658.0
Analysed between:					
Underlying profit before tax	689.6	661.2	622.9	648.1	705.9
Adjustments to reported profit	(200.8)	(61.2)	(42.5)	(100.9)	(47.9)
Income tax expense	(84.4)	(118.3)	(74.4)	(102.4)	(168.4)
Profit after taxation	404.4	481.7	506.0	444.8	489.6
	2016 53 weeks	2015 52 weeks	2014 52 weeks	2013 52 weeks	2012 52 weeks
Basic earnings per share ¹	Basic earnings/Weighted average ordinary shares in issue	24.9p	29.7p	32.5p	28.3p
Underlying basic earnings per share ¹	Underlying basic earnings/Weighted average ordinary shares in issue	35.0p	33.1p	32.2p	31.9p
Dividend per share declared in respect of the year ³		18.7p	18.0p	17.0p	17.0p
Dividend cover	Underlying earnings per share/Dividend per share	1.9x	1.8x	1.9x	1.9x
Retail fixed charge cover	Operating profit before depreciation and operating lease charges/ Fixed charges	3.7x	3.6x	3.4x	3.5x
Statement of financial position					
Net assets (£m)	3,443.4	3,198.8	2,706.7	2,519.5	2,778.8
Net debt ² (£m)	2,138.3	2,223.2	2,463.6	2,614.3	1,857.1
Capital expenditure (£m)	525.1	526.6	710.0	821.3	737.5
Stores and space					
UK stores	914	852	798	766	731
UK selling space (m sq ft)	17.0	16.8	16.6	16.4	16.0
International stores	468	480	455	418	387
International selling space (m sq ft)	6.1	6.0	5.8	5.4	4.7
Staffing (full-time equivalent)					
UK	52,388	52,247	54,678	51,835	51,938
International	6,507	6,849	6,498	5,683	5,116

1. Based on continuing operations.

2. Excludes accrued interest.

3. Excludes Special dividend.

SHAREHOLDER INFORMATION

ANALYSIS OF SHARE REGISTER

Ordinary shares

As at 2 April 2016 the Company had 172,754 registered holders of ordinary shares. Their shareholdings are analysed below. It should be noted that many of our private investors hold their shares through nominee companies, therefore the percentage of private holders is much higher (we estimate approximately 30%) than that indicated.

Range of shareholding	Number of holdings	%	Balance as at 2 April 2016	%
1 – 500	89,227	51.65	17,057,432	1.05
501 – 1,000	33,329	19.29	24,934,675	1.54
1,001 – 2,000	25,789	14.93	37,005,494	2.28
2,001 – 5,000	17,281	10.00	52,941,332	3.26
5,001 – 10,000	4,430	2.56	30,579,322	1.88
10,001 – 100,000	2,120	1.23	50,232,253	3.10
100,001 – 1,000,000	408	0.24	140,098,723	8.63
1,000,001 – Highest	170	0.10	1,270,115,576	78.26
Total	172,754	100.00	1,622,964,807	100.00

Category of shareholder	Number of shareholders	Percentage of total shareholders	Number of ordinary shares	Percentage of issued share capital
Private	165,727	95.93	248,322,893	15.30
Institutional and corporate	7,027	4.07	1,374,641,914	84.70
Total	172,754	100.00	1,622,964,807	100.00

2016/17 financial calendar and key dates

2 June 2016	Ex-dividend date – Final dividend
3 June 2016	Record date to be eligible for the final dividend
7 July 2016	Results – Quarter 1 Trading Statement [†]
12 July 2016	Annual General Meeting (11am)
15 July 2016	Final dividend payment date for the year to 2 April 2016
9 November 2016*	Results – Half Year [†]
17 November 2016*	Ex-dividend date – Interim dividend
18 November 2016*	Record date to be eligible for the interim dividend
January 2017*	Results – Quarter 3 Trading Statement [†]
13 January 2017*	Interim dividend payment date

[†] Those who have registered for electronic communication or news alerts at marksandspencer.com/thecompany will receive notification by email when this is available.

* Provisional dates.

MANAGING YOUR SHARES ONLINE

Shareholders can manage their holdings online by registering with Shareview, the internet based platform provided by Equiniti. Registration is a straightforward process and allows shareholders to:

- Sign up for electronic shareholder communication.
- Receive trading updates by email.
- View all of their shareholdings in one place.
- Update their records following a change of address.
- Have dividends paid into their bank account.
- Vote in advance of company general meetings.

M&S encourages shareholders to sign up for electronic communication as the reduction in printing costs and paper usage makes a valuable contribution to our Plan A commitments. It is also beneficial to shareholders, who can be notified by email whenever we release trading updates to the London Stock Exchange, which are not mailed to shareholders.

To find out more information about the services offered by Shareview and to register, please visit shareview.co.uk.

ANNUAL GENERAL MEETING 2016

This year's AGM will be held at Wembley Stadium, Wembley, London HA9 0WS on Tuesday 12 July 2016. The meeting will start at 11am and registration will be open from 9.30am.

DIVIDENDS

Paid in January and July each year (subject to Board and shareholder approval). We encourage shareholders to have their dividends paid directly into their bank account to ensure efficient payment and that cleared funds are received on the payment date. Shareholders who receive their dividend payments in this way receive a single, annual dividend confirmation annually in January, covering both dividend payments made during the tax year. We are able to send individual dividend confirmation statements if preferred.

Shareholders can change their preferred dividend payment method online at shareview.co.uk or by contacting Equiniti.

SHAREHOLDER INFORMATION
CONTINUED**CHANGING YOUR ADDRESS**

You should inform Equiniti of your new address as soon as possible to avoid missing important correspondence relating to your shareholding. If you hold 1,500 shares or fewer and reside in the UK, this can be done quickly over the telephone. Holdings of more than 1,500 shares will require a written instruction quoting your full name, 11-digit shareholder reference number (if known) and both your previous and new addresses.

DUPLICATE DOCUMENTS

Many shareholders have more than one account on the share register and receive duplicate documentation from us as a result. If you fall into this group, please contact Equiniti to combine your accounts.

CORPORATE WEBSITE

You can access the corporate website at marksandspencer.com/thecompany.

The M&S corporate website provides a wealth of useful information for shareholders and should be your first port of call for general queries relating to the Company and your shares. Shareholders are also encouraged to register to receive news alerts by email. These include all the financial news releases throughout the year that are not sent to shareholders by post.

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

If you have a very small shareholding that is uneconomical to sell, you may want to consider donating it to ShareGift (registered charity no. 1052686), a charity that specialises in the donation of small, unwanted shareholdings to good causes. Find out more by visiting sharegift.org or by calling +44 (0)207 930 3737.

CAPITAL GAINS TAX

For the purpose of Capital Gains Tax, 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 CCT purposes was 372.35p (81.43%) for an ordinary share and 68.75p (18.75%) for a B share.

AMERICAN DEPOSITORY RECEIPTS (ADRS)

The Company has a Level 1 ADR programme. This enables US investors to purchase Marks & Spencer American Depository Shares (ADS) in US dollars 'over the counter'. The Company has chosen to have the ADRs quoted on the OTC market's highest tier, International PremierQX.

For information on OTCQX go to otcqx.com
For Deutsche Bank, email:

DB@amstock.com

ADR website: adr.db.com

Toll free callers within the US:

1 866 249 2593

For those calling outside the US:

+1 (718) 921 8137

SHAREHOLDER QUERIES

The Company's share register is maintained by our registrar, Equiniti. Shareholders with queries relating to their shareholding should contact Equiniti directly using one of the methods listed to the right. For more general queries, shareholders should consult the 'Investors' section of our corporate website.

USEFUL CONTACTS**M&S Registered Office**

Waterside House,
35 North Wharf Road,
London W2 1NW
Telephone +44 (0)20 7935 4422
Registered in England and Wales
(no. 4256886)

Registrar

Equiniti Limited,
Aspect House,
Spencer Road,
Lancing,
West Sussex BN99 6DA
United Kingdom
Telephone 0345 609 0810 and outside
the UK +44 (0) 121 415 7071
Online: help.shareview.co.uk
(from here, you will be able to securely
email Equiniti with your enquiry).

**Group Secretary and Head
of Corporate Governance**

Amanda Mellor

Additional documents

An interactive version of our 2015/16 Annual Report is available online at marksandspencer.com/annualreport2016.

Additionally, both the Annual Report and Strategic Report are available for download in pdf format at marksandspencer.com/thecompany.

Alternatively, call 0800 591 697.

Students

Please note, students are advised to source information from our website.

General queries

Customer queries: 0345 302 1234
Shareholder queries: 0345 609 0810
Alternatively, email us at
chairman@marks-and-spencer.com.

SHAREHOLDER SECURITY

An increasing number of shareholders have been contacting us to report unsolicited and suspicious phone calls received from purported 'brokers' who offer to buy their shares at a price far in excess of their market value. It is unlikely that firms authorised by the Financial Conduct Authority (FCA) will contact you with offers like this. As such, we believe these calls are part of a scam,

commonly referred to as a 'boiler room'. The callers obtain your details from publicly available sources of information, including the Company's share register, and can be extremely persistent and persuasive.

Shareholders are cautioned to be very wary of any unsolicited advice, offers to buy shares at a discount, sell your shares at a premium or

requests to complete confidentiality agreements with the callers.

Remember, if it sounds too good to be true, it probably is!

More detailed information and guidance is available on our corporate website. An overview of current common scams is available on the Action Fraud website actionfraud.police.uk.

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